

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The text is overlaid on the graphic.

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February 2, 2009

Congressional Research Service

Report RL31785

*Foreign Assistance to North Korea*

Mark E. Manyin, Foreign Affairs, Defense, and Trade Division

May 26, 2005

**Abstract.** This report describes and assesses U.S. aid programs to North Korea, including the controversies surrounding the programs, their relationship to the larger debate over strategy and objectives toward the DPRK, and policy options. The roles of China, South Korea, and Japan in providing assistance to North Korea are discussed, highlighting the likelihood that any dramatic decrease in U.S. aid to North Korea may have only marginal effects without the cooperation of these countries, particularly China and South Korea.

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# CRS Report for Congress

Received through the CRS Web

## Foreign Assistance to North Korea

**Updated May 26, 2005**

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# Foreign Assistance to North Korea

## Summary

Since 1995, the United States has provided over \$1 billion in foreign assistance to the Democratic People's Republic of North Korea (DPRK, also known as North Korea), about 60% of which has taken the form of food aid, and about 40% in the form of energy assistance channeled through the Korean Peninsula Energy Development Organization (KEDO). Additionally, the Bush Administration has proposed offering North Korea broad economic development assistance in exchange for Pyongyang verifiably dismantling its nuclear program. Although the President has considerable flexibility to offer some forms of short term development assistance, longer term aid would likely require congressional action.

Since the current North Korean nuclear crisis erupted in October 2002, when North Korea reportedly admitted that it has a secret uranium enrichment nuclear program, the dollar amount of U.S. aid has fallen by an order of magnitude. No U.S. funds have been provided to KEDO since FY2003, and the Bush Administration's position is that it would like to permanently halt KEDO's (currently suspended) construction of two nuclear reactors in North Korea. U.S. food aid also has fallen considerably in recent years. Food has been provided to help North Korea alleviate chronic, massive food shortages that began in the early 1990s and that led to severe famine in the mid-1990s that killed an estimated 1-2 million North Koreans. Food aid to North Korea has come under criticism because the DPRK government restricts the ability of donor agencies to operate in the country, making it difficult to assess how much of each donation actually reaches its intended recipients and how much is diverted for resale in private markets or to the military. Compounding the problem is that South Korea and China, by far North Korea's two most important providers of food, send almost all of their aid directly to North Korea with virtually no monitoring. The WFP says that food conditions have worsened since North Korea introduced economic reforms in 2002.

The Administration appears to be loosely adhering to its DPRK food aid policy (i.e. it will provide base levels of food assistance to North Korea) with more to come only if the DPRK allows greater access and monitoring. After announcing the policy in February 2003, the Administration announced a new tranche of food aid, despite only marginal improvements on the ground. New North Korean restrictions in 2004 are likely to complicate U.S. policy. A decision on food aid for 2005 has yet to be reached. The North Korean Human Rights Act (P.L. 108-333) includes hortatory language calling for "significant increases" above current levels of U.S. support for humanitarian assistance to be conditioned upon "substantial improvements" in transparency, monitoring, and access.

This report describes and assesses U.S. aid programs to North Korea, including the controversies surrounding the programs, their relationship to the larger debate over strategy and objectives toward the DPRK, and policy options. The roles of China, South Korea, and Japan in providing assistance to North Korea are discussed, highlighting the likelihood that any dramatic decrease in U.S. aid to North Korea may have only marginal effects without the cooperation of these countries, particularly China and South Korea. This report will be updated as circumstances warrant.

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# U.S. Assistance to North Korea

## Introduction: Issues for U.S. Policy

For four decades after the end of the Korean War in 1953, U.S. strategy toward the Democratic People's Republic of Korea (DPRK, commonly referred to as North Korea) was relatively simple: deter an attack on South Korea, an approach that included a freeze on virtually all forms of economic contact between the United States and North Korea. In the 1990s, two developments led the United States to rethink its relationship with the DPRK: North Korea's progress in its nuclear weapons program and massive, chronic food shortages there. In response, the United States in 1995 began providing the DPRK with foreign assistance, which has totaled over \$1.1 billion. This aid has consisted of energy assistance through the Korean Peninsula Energy Development Organization (KEDO), food aid, and a small amount of medical supplies, including three medical kits that were sent to the World Health Organization in April 2005 to help in dealing with the reported outbreak of avian influenza in North Korea. (See **Table 1**.)

Since the current North Korean nuclear crisis erupted in late 2002, the level of U.S. aid has fallen by an order of magnitude, in large measure because U.S. has sent almost no funds to KEDO since the organization's executive board voted to halt oil shipments to North Korea in November 2002. In all likelihood, the dropoff in aid levels has reduced the already little leverage U.S. aid had exerted on North Korean behavior, particularly relative to China's and South Korea's continued assistance to and increased trade with the DPRK.

## Aid and the Debate over North Korea Policy

Aid to North Korea has been controversial since its inception, and the controversy is intricately linked to the overall debate in the United States, South Korea, and other countries over the best strategy for dealing with the DPRK. North Korea is deemed a threat to U.S. interests because it possesses advanced nuclear and missile programs, has a history of proliferating missiles, reportedly has threatened to export parts of its self-declared nuclear arsenal, is suspected of possessing chemical and biological weapons programs, and since the late 1980s has been included on the U.S. list of states that sponsor terrorism. Pyongyang also is characterized as one of the world's worst violators of human rights and religious freedom, a record that some Members of Congress and interest groups say should assume greater importance in the formation of U.S. priorities toward North Korea.

**Table 1. U.S. Assistance to North Korea, 1995-2004**

Calendar or Fiscal Year	Food Aid (per FY)		KEDO Assistance (per calendar yr; \$ million)	Medical Supplies (per FY; \$ million)	Total (\$ million)
	Metric Tons	Commodity Value (\$ million)			
1995	0	\$0.0	\$9.5	\$0.2	<b>\$9.7</b>
1996	19,500	\$8.3	\$22.0	\$0.0	<b>\$30.3</b>
1997	177,000	\$52.4	\$25.0	\$5.0	<b>\$82.4</b>
1998	200,000	\$72.9	\$50.0	\$0.0	<b>\$122.9</b>
1999	695,194	\$222.1	\$65.1	\$0.0	<b>\$287.2</b>
2000	265,000	\$74.3	\$64.4	\$0.0	<b>\$138.7</b>
2001	350,000	\$102.8	\$74.9	\$0.0	<b>\$177.6</b>
2002	207,000	\$82.4	\$90.5	\$0.0	<b>\$172.9</b>
2003	40,200	\$25.5	\$3.7	\$0.0	<b>\$29.2</b>
2004	110,000	\$55.1	\$0.0	\$0.2	<b>\$55.3</b>
<b>Total</b>	<b>2,063,894</b>	<b>\$695.8</b>	<b>\$405.1</b>	<b>\$5.4</b>	<b>\$1,106.2</b>

**Sources:** Figures for food aid and medical supplies from USAID and US Department of Agriculture; KEDO (Korean Peninsula Energy Development Organization) figures from KEDO.

**Humanitarian Aid.** Supporters of aid contend that humanitarian assistance has saved and improved the lives of millions of North Koreans. Many also say humanitarian and development assistance is one way to induce North Korea to cooperate with the international community. Proponents of engagement argue that in the long run, aid could fundamentally change the character of the North Korean regime by increasing the DPRK's exposure to and dependence on the outside world. The Agreed Framework (which froze the DPRK's plutonium nuclear facilities for eight years), North Korea's establishment of relations with a number of European countries, Pyongyang's unveiling of significant economic reforms since July 2002, and a spate of economic and humanitarian agreements with South Korea are often cited as examples of this cooperation.

In contrast, many critics argue that aiding North Korea has led to marginal changes in the DPRK's behavior at best; at worst, aid arguably has helped keep the current North Korean regime in power, has allowed the regime to avoid making fundamental economic and political reforms that could improve humanitarian conditions, and possibly allowed additional funds to be channeled into the DPRK military establishment. Moreover, critics suggest aid has encouraged Pyongyang to engage in further acts of military blackmail to extract more assistance from the international community. In this view, the aid under the Agreed Framework halted North Korea's plutonium program, but it did not keep the country from pursuing a secret uranium enrichment program, disclosed in October 2002. Some argue that the best response to the North Korean threat is to try to trigger the current regime's collapse by suspending non-humanitarian assistance.

Food aid to North Korea has generated its own particular debate. Some policymakers and commentators have called for it to be linked to broader foreign policy concerns, either by using the promise of food to encourage cooperation in security matters or by suspending food aid to trigger a collapse. Others, arguing that food should not be used as a weapon, and have called for delinking humanitarian assistance from overall policy toward the DPRK, either by providing food unconditionally or by conditioning it upon North Korea allowing international relief groups greater freedom to distribute and monitor their aid. U.S. policy in recent times has de-linked food and humanitarian aid from strategic interests.

**Coercive Measures.** Some critics of the current aid effort argue for a more tailored form of containment that would include diplomatically and economically isolating North Korea and calibrating economic sanctions and development aid to reward or punish the DPRK's actions. A major difficulty with this approach is that U.S. options are limited. In the current diplomatic and political climate, offering "carrots" such as allowing North Korea to join international financial institutions would likely require reciprocal actions that Pyongyang to date has resisted.

Punitive sanctions, however, would likely be only marginally effective without at least the tacit cooperation of Beijing and Seoul. China and South Korea are by far North Korea's two largest economic partners and aid providers, and both countries place greater priority on preserving North Korea's stability than on resolving the nuclear issue. Chinese support would be particularly important, as China is widely believed to be North Korea's single-largest provider of food and energy. To this end, China and South Korea have been reluctant to use pressure tactics to induce changes in the Kim Jong-il regime's behavior. Japan, the country closest to the United States in the six-party talks to discuss North Korea's nuclear weapons program, has seen its economic importance to North Korea diminish markedly over the past four years.<sup>1</sup> Meanwhile, military options generally are considered to be poor given the uncertainties surrounding North Korea's nuclear program and the risk of unleashing retaliatory North Korean missile strikes on South Korea and/or Japan. Therefore, absent support from China and/or South Korea, some say the actions most likely to hurt Kim Jong-il's regime are those that would cut off its supply of hard currency by curtailing sales of illicit materials — particularly narcotics, and counterfeit currency, cigarettes, and pharmaceuticals — and weapons through such devices as the Proliferation Security Initiative (PSI) and the Illicit Activities Initiative. The scale and scope of North Korean criminal activity is believed to have risen in recent years, and is thought to generate hundreds of millions of dollars in hard currency.<sup>2</sup>

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<sup>1</sup> The six-party talks consist of the United States, North Korea, China, South Korea, Japan, and Russia. Since the six-party process was initiated in August 2003, three rounds of plenary negotiations have been held. The last occurred in June 2004. As of early June 2005, North Korea has refused to return to the talks.

<sup>2</sup> David Sanger, "U.S. Is Shaping Plan to Pressure North Korea," *New York Times*, February 14, 2005. For more on PSI, see CRS Report RS21881, *Proliferation Security Initiative (PSI)*, by Sharon Squassoni. For more on North Korea's criminal activities, see CRS Report RL32167, *Drug Trafficking and North Korea: Issues for U.S. Policy*, by Raphael Perl.



**Development Assistance.** Administration officials, including President Bush, have issued vague pledges of U.S. assistance that might be forthcoming if North Korea began dismantling its nuclear programs. In January 2003, President Bush said that he would consider offering the DPRK a “bold initiative” including energy and agricultural development aid if the country first verifiably dismantles its nuclear program and satisfies other U.S. security concerns dealing with missiles and the deployment of conventional forces.<sup>3</sup> The Administration reportedly was preparing to offer a version of this plan to North Korea in the summer of 2002, but pulled it back after acquiring more details of Pyongyang’s clandestine uranium nuclear weapons program.<sup>4</sup> In June 2004, during the third round of six-party talks to resolve the North Korean nuclear crisis, the United States offered a proposal that envisioned a freeze of North Korea’s weapons’ program, followed by a series of measures to ensure complete dismantlement and, eventually, a permanent security guarantee, negotiations to resolve North Korea’s energy problems, and discussions on normalizing U.S.-North Korean relations that would include lifting the remaining U.S. sanctions and removing North Korea from the list of terrorist-supporting countries. In the interim, Japan and South Korea would provide the North with heavy oil. North Korea rejected the proposal as a “sham,” and it was not supported in public by any of the other participants in the talks.

With regard to development assistance programs, in the near term, the President has considerable flexibility to offer some forms of development assistance. The Foreign Assistance Act of 1961, for instance, allows the President annually to provide up to \$50 million per country for any purpose.<sup>5</sup> Longer-term initiatives, however, would likely require changes in U.S. law and thereby require congressional action. For instance, the FY 2005 Consolidated Appropriations Act specifically bans many forms of direct aid to North Korea, along with several other countries.<sup>6</sup> Many health and emergency disaster relief aid programs are exempt from such legislative restrictions because they have “notwithstanding” clauses in their enacting legislation. Additionally, if the Administration were to designate North Korea as a country involved in drug production and trafficking — as some have advocated — then by law North Korea would be ineligible for receiving most forms of U.S. development assistance.<sup>7</sup>

## Congress’s Role

The provision of aid to North Korea has given Congress a vehicle to influence U.S. policy toward North Korea. From 1998 until the United States halted funding

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<sup>3</sup> Testimony of Richard Armitage, State Department Deputy Secretary, before the Senate Foreign Relations Committee, February 4, 2003.

<sup>4</sup> Testimony of Richard Armitage, State Department Deputy Secretary, before the Senate Foreign Relations Committee, February 4, 2003.

<sup>5</sup> Section 614 of the Foreign Assistance Act of 1961, P.L. 87-195.

<sup>6</sup> Section 507 of P.L. 108-447, the FY2005 Consolidated Appropriations Act, which also bans direct aid to Cuba, Iraq, Libya, Iran, Sudan, and Syria.

<sup>7</sup> See CRS Report RL32167, *Drug Trafficking and North Korea: Issues for U.S. Policy*, by Raphael Perl.

for KEDO in FY2003, Congress included in each Foreign Operations Appropriations requirement that the President certify progress in nuclear and missile negotiations with North Korea before allocating money to KEDO operations. In 1998, under congressional pressure, President Clinton appointed a North Korea policy coordinator, a position that the Bush Administration terminated in 2001.

With regard to food aid, some Members have supported continued donations on humanitarian grounds of helping the North Korean people, regardless of the actions of the North Korean regime. Other Members have voiced their outright opposition to food aid to the DPRK, or have called for food assistance to be conditioned upon North Korean cooperation on monitoring and access. The congressional debate over food assistance to North Korea also is likely to be colored by the competing demands for other emergency situations — particularly in Sudan, Ethiopia, and the countries hit by the Indian Ocean tsunami — that have stretched FY2005 U.S. food aid funds and commodities. (See the “Competition for Food Aid Resources” section below.)

**The North Korea Human Rights Act.** In 2004 the 108<sup>th</sup> Congress passed, and President Bush signed, the North Korea Human Rights Act (H.R. 4011; P.L. 108-333). With regard to U.S. assistance, the act:

- requires that U.S. non-humanitarian assistance to North Korea be contingent upon North Korea making “substantial progress” on a number of specific human rights issues;
- includes hortatory language calling for “significant increases” above current levels of U.S. support for humanitarian assistance to be conditioned upon “substantial improvements” in transparency, monitoring, and access;
- requires the United States Agency for International Development (USAID) to issue a report to Congress on humanitarian assistance activities to North Korea and North Koreans in China that receive U.S. funding, and any changes in the transparency, monitoring, and access of food aid and other humanitarian activities; and,
- authorizes but does not appropriate a total of \$24 million annually for the next four years for programs that promote human rights and democracy, freedom of information, and assistance to North Koreans in China, including the dissemination of transistor radios inside North Korea.

Pyongyang has cited the act as evidence of the “hostile policy” of the United States toward North Korea and has used it as one justification for suspending its participation in the six-party talks.<sup>8</sup>

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<sup>8</sup> Korean Central News Agency, “U.S. ‘North Korean Human Rights Act’ Flailed,” October 4, 2004.

## Food Assistance to North Korea

A mountainous country with relatively little arable land, North Korea long has relied upon imports of food. Beginning in the early 1990s, after the collapse of the Soviet Union and the system of economic benefits North Korea had received from the communist bloc, the DPRK began experiencing a food shortage of increasing severity. Disastrous floods in the summer of 1995 plunged the country into a severe famine that by some estimates was responsible for one to two million deaths, approximately 5% - 10% of North Korea's population. Although natural disasters were the immediate causes of the food crisis, several experts have found the root causes of the famine in decades of economic and agricultural mismanagement.<sup>9</sup> In September 1995, North Korea appealed for international food assistance, contradicting its national ideology of *juche*, or self-reliance. Shortly thereafter, the U.N. World Food Program (WFP) moved into North Korea, and its activities there gradually have expanded to become the WFP's largest single-country operation.

The United States has been by far the largest contributor to the WFP's North Korea appeals, contributing over half of the 3.7 million metric tons (MT) of food the WFP has delivered to North Korea. According to WFP statistics, North Korea received an additional 4.6 million MT from bilateral donations that are not channeled through the WFP. China, which is widely believed to have provided even more food than the United States, sends all its food aid directly to North Korea. Additionally, since 2000, South Korea has been a major provider of food assistance, perhaps surpassing China and the United States in importance in some years. Most of Seoul's food shipments are provided bilaterally to Pyongyang.

### Current Food Situation

Though the famine apparently abated by 1997 and the DPRK has made incremental progress in agricultural production, the WFP estimates that nearly half of North Korea's 23.7 million people do not have enough to eat and that more than a third of the population is chronically malnourished.<sup>10</sup> A 2004 nutritional survey conducted by the North Korean government and sponsored by the United Nations also indicated that, although malnutrition rates have fallen significantly since the late 1990s, more than a one-third of the population is chronically malnourished and approximately one-third of North Korean mothers are malnourished and anemic.<sup>11</sup> The northern and northeastern provinces have been particularly hard hit by the famine, for reasons examined below.

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<sup>9</sup> For instance, see Andrew Natsios, *The Great North Korean Famine*, (U.S. Institute of Peace: Washington, DC, 2001), especially chapters 1 and 2. Among the cited policies that over time led to the famine were excessive use of chemical fertilizers and the excessive conversion of land into agricultural uses. The latter practice contributed to the massive deforestation and soil erosion that led to increasingly severe annual floods.

<sup>10</sup> WFP News Release, "6.5 Million Vulnerable North Koreans Still in Desperate Need of Food Aid," January 27, 2005.

<sup>11</sup> NAPSNET Special Report, "World Food Programme Press Conference on the DPRK by Tony Banbury, WFP Regional Director for Asia," March 31, 2005.

**The Impact of the 2002 Economic Reforms.** The economic reforms the North Korean government initiated in July 2002 were perhaps the most sweeping in the country's history and have had a major impact on the lives of North Koreans.<sup>12</sup> The most important of the reforms were: raising official prices to bring them closer to black market levels, raising wage levels to meet the rise in prices, granting farmers and cooperatives greater latitude to sell produce, officially recognizing the informal markets that had sprouted in the 1990s, and cutting government subsidies to most industries.<sup>13</sup> In general, those with access to hard currency — such as the political elite — appear to be doing much better, as evidenced by the appearance of more cars and restaurants in Pyongyang. Aid workers and defector reports indicate a striking upsurge in entrepreneurial activity, including activity outside the state sector. New restaurants and other leisure establishments have opened in Pyongyang, and a wide range of products now appear in the official markets. More bicycles are on the streets throughout the country, and small-scale service activities such as bike repair shops and shoe shine stands have appeared in the countryside. Farmers' incomes appear to have increased now that they are permitted to maintain private plots and/or sell above-quota produce on the open market. Indeed, there are reports that cash crops have appeared, as farmers can raise more money producing vegetables, fruits, and selling those in the market, than in producing staple grains such as maize or rice or potatoes.<sup>14</sup>

However, the reforms appear to have worsened general conditions for all except the top strata of society. North Korea is experiencing high or hyperinflation in many items, particularly in important foodstuffs such as rice, the price of which the WFP estimates tripled in parts of the country in 2003 and 2004.<sup>15</sup> Urban residents are particularly vulnerable, as they rely heavily on inflation-prone private markets. In late 2002, the WFP estimated these individuals spent up to 80% of their income on food, compared to no more than 35% for state farmers and much less for collective farmers.<sup>16</sup> The reforms also have led to unemployment and underemployment, further reducing workers' ability to survive outside the government's public distribution system (PDS), which is used by nearly 70% of the population but is subject to chronic shortages and occasional and selective shutdowns. Increasingly, the WFP has channeled its food supplies to these newly vulnerable groups, and their plight was leading some within the WFP to consider increasing the size of its

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<sup>12</sup> See, for instance, International Crisis Group, *North Korea: Can the Iron Fist Accept the Invisible Hand?* Washington, DC, April 25, 2005.

<sup>13</sup> See CRS Report RL32493, *The North Korean Economy: Background and Policy Analysis*, by Dick Nanto. According to one report, food, fuel, and electricity prices rose by 26 times on average and public transportation fees rose by twenty times. Rice prices reportedly were raised by a factor of 550. International Crisis Group, pp.5-6.

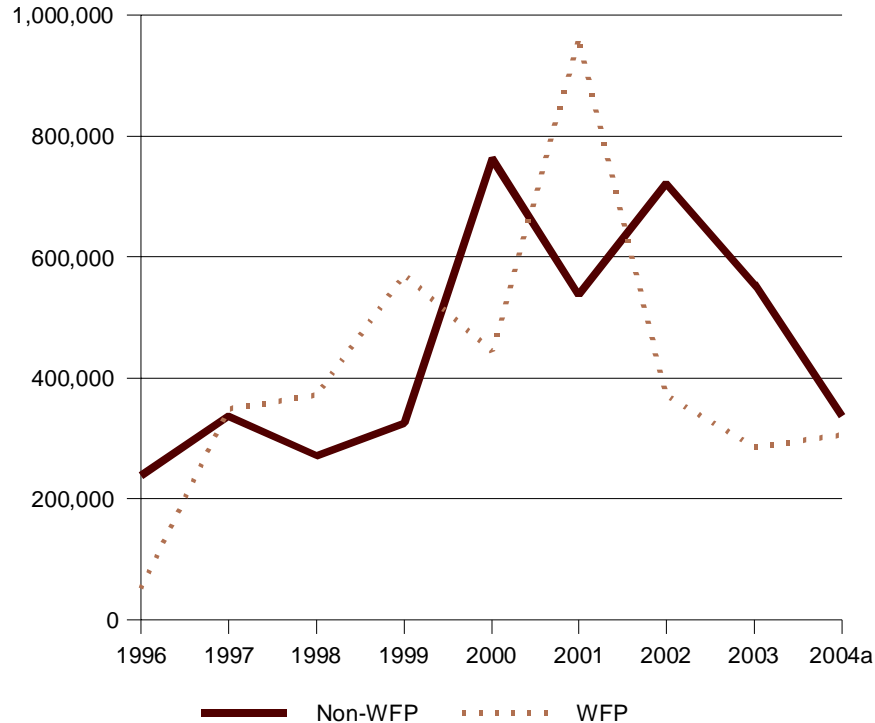
<sup>14</sup> March and April 2005 e-mail exchanges and phone conversations with WFP, USAID, and NGO representatives; NAPSNET Special Report, "World Food Programme Press Conference on the DPRK by Tony Banbury, WFP Regional Director for Asia," March 31, 2005; International Crisis Group, pp.5-6.

<sup>15</sup> Banbury Press Conference, March 31, 2005; International Crisis Group, p. 6.

<sup>16</sup> World Food Program Press Release, "WFP Seeks Strong Backing for New Aid Initiative in North Korea," December 3, 2002.

appeal.<sup>17</sup> Richard Ragan, the WFP Country Director for North Korea, reportedly said in May 2005 that he worries the country “is inching back to a precipice.”<sup>18</sup>

**Figure 1. WFP and Non-WFP Food Aid Deliveries to North Korea, 1995-2004**



Source: WFP INTERFAIS database (2005).

a. 2004 totals do not include ROK pledges of 200,000 MT directly to North Korea and 100,000 through the WFP. These are expected to be delivered in 2005.

Despite the continued, and perhaps growing need, the World Food Program has had difficulty filling its appeals for donations to North Korea since 2002, due largely to “donor fatigue” and from competing demands for food assistance elsewhere, particularly east Africa. **Figure 1** shows the decline in recorded food aid shipments overall since 2002, as well as the jump in the relative importance of food donated directly to North Korea, virtually all of which is from China and South Korea. Since 2000, bilateral shipments have exceeded those channeled through the WFP. The one exception, 2001, occurred because of Japan’s 500,000 MT donation that year.

The WFP says the amount of food in the WFP pipeline has been erratic in recent years, sometimes sufficient to meet only 20% of its targeted population. In September 2004, the WFP for the first time in two years had enough food to feed all of its 6.5 million targeted recipients, primarily due to a large contribution from

<sup>17</sup> Banbury Press Conference, March 31, 2005.

<sup>18</sup> Jay Solomon, “U.S. Has Put Food Aid For North Korea On Hold,” *Wall Street Journal* May 20, 2005.

Japan.<sup>19</sup> However, as of mid-May 2005, none of the WFP's largest donors to its North Korea appeal — the United States, South Korea, the European Union, and Japan — had pledged a contribution. WFP's 2005 emergency operation seeks 500,000 MT of food, valued at \$200 million, to help feed the 6.5 million North Koreans deemed most at risk. The appeal is up from the 485,000 MT target in 2004, the first increase since 2002, when the WFP fell short of its target of 611,000 MT.

## Diversions, Monitoring, and Triaging by North Korea

Various sources assert that not all the food assistance going to North Korea is reaching its intended recipients, and that North Korea's restrictions have made it impossible for the WFP to fully track food shipments to the over 40,000 institutional recipients. Sources include interviews with North Korean refugees in China who say they have never received international food aid.<sup>20</sup> The numerous reports of donated food being sold (at price levels far higher than the official, government-controlled prices) in markets are widely assumed to be signs that officials are stealing and selling some of the aid for their own profit. Additionally, a number of refugees, including former soldiers, has stated that food aid has been distributed regularly to the North Korean People's Army (KPA).<sup>21</sup> In February 2003, U.S. Ambassador to the U.N. food agencies, Tony Hall, cited "credible" reports of diversion in making the case for possibly reducing and conditioning future U.S. food aid. Testifying in April 2005 at a joint hearing of the House International Relations Subcommittees on Asia and the Pacific and Africa, Global Human Rights, and International Operations, economist Marcus Noland cited estimates of diversion that range from 10% - 30%, presumably most to private markets. Noland also noted that diversion to markets can have the unintended effect of lowering food prices, hurting farmers but benefiting food-consumers.<sup>22</sup>

WFP officials and a number of analysts have pointed out that because the KPA receives the first cut at the domestic harvest and Chinese food aid, it has no need for WFP food.<sup>23</sup> Even if the military is not directly siphoning off food aid, however, such assistance is fungible; funds that otherwise would have been spent on food can

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<sup>19</sup> WFP North Korea Director Richard Ragan comments at May 12, 2005 seminar at CSIS.

<sup>20</sup> Testimony of Sophie Delaunay, North Korean Project Representative, Medecins Sans Frontieres (MSF), before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002, [[http://www.house.gov/international\\_relations/](http://www.house.gov/international_relations/)]. See also MSF's *North Korea: Testimonies of Famine, Refugee Interviews From the Sino-Korean Border*, [<http://www.doctorswithoutborders.org/publications>].

<sup>21</sup> MSF, *Testimonies of Famine*; Amnesty International, *Persecuting the Starving: The Plight of North Koreans Fleeing into China*, December 15, 2000, available in the "library" section of the organization's website, [<http://www.amnesty.org>]

<sup>22</sup> Testimony of Marcus Noland to the House International Relations Subcommittees on Asia and the Pacific and on Africa, Global Human Rights, and International Operations hearing on April 28, 2005.

<sup>23</sup> Testimony of John Powell, World Food Program Regional Director, before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002.

be spent on other items, such as the military.<sup>24</sup> North Korea has expended little of its foreign currency to import food. **Figure 2** shows how according to U.N. data, North Korea's commercial imports of food fell dramatically once full-fledged international assistance began. Since 1999, around 90% of North Korea's inflows of food has come from aid rather than commercial imports.<sup>25</sup>

Since it first appealed for outside assistance, the North Korean government has restricted relief groups' activities, hindering their ability to ensure that their assistance reaches the neediest. Though many NGOs have operated for years in the DPRK, several prominent groups — including Medecins Sans Frontieres (MSF, Doctors Without Borders), Action Against Hunger, and CARE — have halted their North Korean operations because they cannot adequately monitor the assistance they provide.<sup>26</sup> MSF has been particularly vocal in its criticism of the food aid program.<sup>27</sup> A 1999 General Accounting Office inquiry into U.S. food assistance to the DPRK found that “the North Korean government has not allowed the WFP to fully implement its procedures and, as a result, it cannot be sure that the food aid is being shipped, stored, or used as planned.”<sup>28</sup>

As mentioned earlier, bilateral food donations from China and South Korea have in recent years exceeded donations from the WFP, in some years by large amounts. The Chinese are not believed to attach any conditions to their food aid, and South Korea has been able to negotiate a monitoring system that most observers describe as so limited as to be almost nonexistent. Speaking at a May 2005 seminar on North Korea's humanitarian problems, WFP Country Director Richard Ragan said bilateral donations “undercut” the WFP's efforts to negotiate improvements with North Korea, a charge echoed by other analysts and aid workers.<sup>29</sup> USAID reports that the Bush Administration has “strongly encouraged” South Korea and China to channel their aid through the WFP and/or to make monitoring, access, and transparency more of a priority in negotiating bilateral donations.<sup>30</sup>

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<sup>24</sup> Noland, “North Korea's External Economic Relations,” February 2001, available at [<http://www.iie.com>].

<sup>25</sup> Marcus Noland and Stephan Haggard, Statement Submitted to House International Relations Subcommittees on Asia and the Pacific and on Africa, Global Human Rights, and International Operations hearing on April 28, 2005.

<sup>26</sup> See Hazel Smith, *Overcoming Humanitarian Dilemmas in the DPRK (North Korea)*, United States Institute of Peace Special Report 90, July 2002, p. 5, 10. Arguing that there is “no humanitarian space whatsoever” for work in North Korea, MSF withdrew its year-old operation in 1998.

<sup>27</sup> Testimony of Sophie Delaunay, North Korean Project Representative, Medecins Sans Frontieres, before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002.

<sup>28</sup> General Accounting Office Report GAO/NSIAD-00-35, *North Korea Restricts Food Aid Monitoring*, October 1999, available at [<http://www.gao.gov>].

<sup>29</sup> “North Korea: Addressing Humanitarian and Human Rights Problems,” May 12, 2005 seminar at the Center for Strategic and International Studies, Washington, DC.

<sup>30</sup> USAID, *Report on U.S. Humanitarian Assistance to North Koreans*, April 25, 2005, p. (continued...)

**Tightened Restrictions in 2004.** Until the fall of 2004, WFP officials provided evidence of improvements over time. As detailed below, North Korean authorities were granting increased access and tolerating more and more frequent monitoring visits, the spontaneity of which was increasing. In September 2004, however, the North Korean government began restricting many humanitarian activities, particularly those of resident relief organizations, such as the WFP, and of American NGOs operating in North Korea.<sup>31</sup> North Korea authorities closed off several counties to U.N. humanitarian agencies, told the WFP it would have to reduce its expatriate monitoring presence by one-third (from fifteen to ten officials), and began to deny more monitoring visit requests. North Korea also announced it would no longer appeal for outside humanitarian assistance — preferring development aid instead — and therefore would no longer participate in the U.N. Consolidated Appeals Process (CAP) and no longer would have need for the U.N. Office for the Coordination of Humanitarian Affairs (OCHA) in Pyongyang.

WFP and NGO officials say this led to much tougher operating conditions in late 2004 and early 2005. Beginning in February and March 2005, North Korea began to relax some of its restrictions. The WFP was allowed to re-enter most of the counties that had been closed off; North Korean authorities have decided not to close OCHA's office; the government granted WFP expatriates authority to use the local cellular phone service; and approvals of monitoring visit requests began to rise.<sup>32</sup> However, although monitoring and access conditions appear to have improved since early 2005, they do not yet appear to have returned to the level they had reached in the summer of 2004. In particular, the number of monitoring visits the WFP has been permitted is down to three-year lows, and North Korea has not reversed its demand that the WFP draw down its expatriate staff, which is likely to reduce the number of monitoring visits. The WFP has attempted to compensate by reaching an agreement in principle with DPRK authorities on several ways to improve the quality of its monitoring, including the ability to observe actual distributions of food aid, the distribution of WFP ration cards, and the establishment of a comprehensive commodity tracking system. As of late April 2005, the agreement had yet to be implemented.<sup>33</sup>

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<sup>30</sup> (...continued)

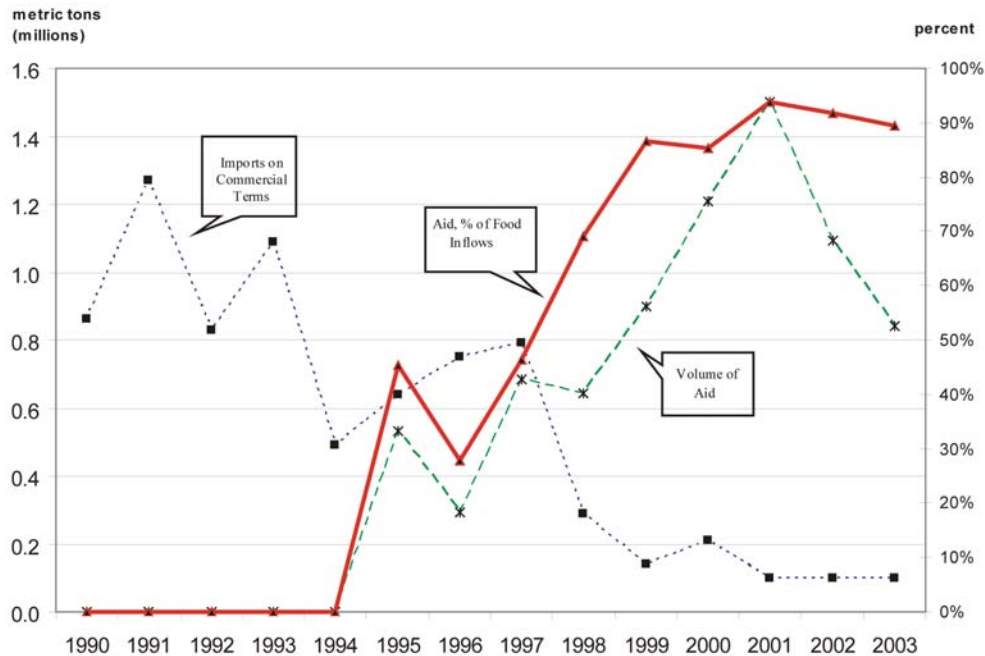
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<sup>31</sup> North Korean authorities generally do not permit American NGOs to have permanent residential status in North Korea.

<sup>32</sup> March and April 2005 e-mail correspondence with Richard Ragan, WFP Country Director for North Korea.

<sup>33</sup> Banbury press conference; USAID, *Report on U.S. Humanitarian Assistance to North Koreans*, April 25, 2005; March and April 2005 e-mail exchanges and phone conversations with WFP, USAID, and NGO representatives.



**Figure 2. North Korean Food Imports and Aid, 1990-2003**

Sources: Adapted from Marcus Noland and Stephan Haggard, Statement for April 28, 2005 House International Relations Hearing. Imports: FAO/WFP (various publications); Aid: INTERFAIS (2005)

**Details of WFP's Access and Monitoring.** Over the years, WFP officials have cited a number of areas of dissatisfaction with operating conditions in North Korea:<sup>34</sup>

- *Incomplete access.* The North Korean government does not permit the WFP to have access to many counties to assess needs, provide food, and monitor distribution. Over time, DPRK authorities had opened more counties to the WFP. By the summer of 2004, only 42 counties — representing about 15% of the population — were off limits, down from 61 in 1998. In keeping with the organization's "no access, no food" policy, the WFP does not provide food to these banned counties. North Korea's August 2004 restrictions included the closure of ten counties previously open to the WFP, reducing WFP's access to about 80% of the population. Seven of these were reopened in March 2005, bringing country-wide access to 158 of 203 counties and districts, representing approximately 83% of the population.<sup>35</sup> Aid workers involved in the North Korean relief effort

<sup>34</sup> See especially testimony of John Powell, World Food Program Regional Director, before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002.

<sup>35</sup> USAID, *Report on U.S. Humanitarian Assistance to North Koreans*, April 25, 2005; March and April 2005 e-mail exchanges and phone conversations with WFP and USAID (continued...)

offer a variety of explanations as to why Pyongyang has prohibited access to certain areas, including the presence of sensitive security-related facilities; anger at the actions of a particular local official; and/or the “triaging” of the northern and eastern areas of the country so that more food can be provided to politically favored regions and constituencies, particularly the communist party elite in Pyongyang.<sup>36</sup> The 2004 nutrition survey found, for instance, that the stunting rates (measured as height-for-age) for children under six in the northern and eastern provinces of Yanggang (47%) and South Hamgyong (46%) were nearly half the level in Pyongyang (26%).<sup>37</sup> Because the WFP uses the state-run PDS to deliver its food, the WFP’s North Korea program is susceptible to any use of the PDS for the regime’s political ends. There have been calls for the WFP to abandon the PDS on the basis that it helps to sustain the regime and to stunt the development of local markets that are outside the government’s direct control.<sup>38</sup>

- *Inability to conduct random spot checks.* Not only is the WFP’s access incomplete, but is also highly circumscribed by the government, which restricts the WFP’s staff from conducting random checks. Pyongyang has yet to provide WFP with the full list of beneficiary institutions through which WFP food assistance is provided, despite a 2001 pledge to do so. In the absence of a list and free access, WFP monitoring teams in North Korea submit travel requests to the government five days in advance. Local North Korean authorities then decide which institutions will be visited, though WFP officers’ on-the-spot requests for visits to specific sites occasionally are granted. Critics of the food aid programs have argued that the monitoring trips are staged by the North Korean

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<sup>35</sup> (...continued)  
representatives.

<sup>36</sup> The triaging argument has been prominently argued by Andrew Natsios, currently director of the USAID, in his book, *The Great North Korean Famine*, p. 105-09. North Korea’s traditional food allocation system is highly politicized, with lesser-favored groups receiving lower rations. Natsios highlights the considerable evidence that as food shortages worsened, the North Korean government curtailed and/or suspended the operation of the state-run food distribution system in the northeastern provinces of Chagang, Yanggang, North Hamgyong, and South Hamgyong. From 1995 until mid-1997, the government resisted the WFP’s plans to allocate food to much of these regions.

<sup>37</sup> North Korean Central Bureau of Statistics Institute of Child Nutrition, *DPRK 2004 Nutrition Assessment. Report of Survey Results*, February 2005, p.82.

<sup>38</sup> For variations of these arguments, see Scott Snyder, “The NGO Experience in North Korea,” in Scott Snyder, et al., *Paved with Good Intentions: The NGO Experience in North Korea* (Praeger Publishers: Westport, CT, 2003), especially p.5.

government.<sup>39</sup> Interviewees cannot be chosen at random, for instance, and the WFP is not permitted to interview households that are not already receiving aid, making it difficult to ascertain whether aid is going to the most needy.

Until the restrictions implemented in the fall of 2004, U.N. officials said the level of cooperation with their North Korean counterparts had increased significantly over the years. In 2003, about 1% of the pre-arranged trips were cancelled, compared with 5% in 2002 and 8% in 2001.<sup>40</sup> Prior to the 2004 restrictions, WFP officials said their ability to monitor shipments had improved over time, despite the constraints imposed on them. The authorities had allowed the WFP and other relief groups more access to more institutions.<sup>41</sup> The number of monitoring visits more than doubled between 2001 and 2003, raising the average number of monthly visits to 513 in 2003, up from 265 in 2000. Following the fall 2004 restrictions, visits fell to levels not experienced since 2001, though they were still above some previous years' levels.<sup>42</sup> Additionally, WFP staff reportedly have been allowed greater freedom in the types of questions they can ask and expect to be answered.<sup>43</sup>

- *Access to consumers' markets.* Until 2003, the WFP was barred access — as were all foreigners — from entering consumers' markets, which have replaced the public distribution system as the main source of food for many, if not most, North Koreans. Gaining access to the markets is perhaps the only way of determining the actual price of food and other commodities in North Korea. In the markets, prices reportedly fluctuate in accordance with relative supply and demand, in contrast to the official public distribution system, where prices are set by the central government.

In August 2003, the North Korean government gave the WFP and other foreigners permission to enter the newly opened Tongil consumer market in Pyongyang. Thereafter, visitations to other markets began to be allowed, though WFP staff are permitted only intermittent access to other markets throughout the country.<sup>44</sup>

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<sup>39</sup> See, for instance, Sophie Delaunay, May 2, 2002 testimony.

<sup>40</sup> March 2004 e-mail correspondence with Massood Hyder, WFP Representative for the DPRK.

<sup>41</sup> Smith, *Overcoming Humanitarian Dilemmas*, p.13

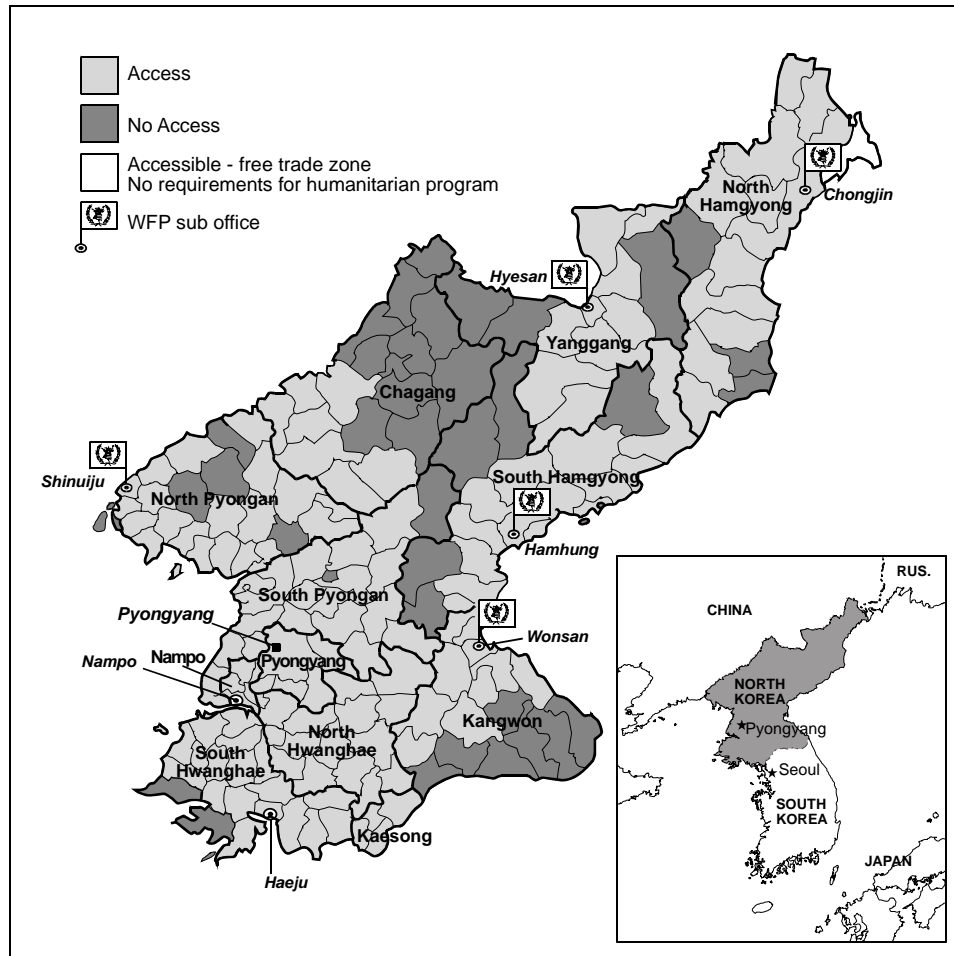
<sup>42</sup> USAID, *Report on U.S. Humanitarian Assistance*.

<sup>43</sup> January 2003 e-mail correspondence with Rick Corsino, former WFP Country Director for North Korea.

<sup>44</sup> May 2005 e-mail correspondence with Richard Ragan, WFP Country Director for North Korea.

- *Inability to use its own interpreters.* The WFP is not permitted to recruit Korean speakers as its international staff, making WFP staff reliant upon government-provided interpreters. WFP staff have been allowed to study Korean after they arrive in North Korea.

**Figure 3. Map of the World Food Program's North Korea Operations as of February 2004**



Source: World Food Program, Map Resources. Adapted by CRS. (K. Yancey 3/18/04)

Notwithstanding these obstacles, WFP officials say they have “reasonable” confidence that “the food provided through WFP gets to those who need it.” “We have no doubt,” a former WFP country director for North Korea has written, “that our aid has saved many, many lives.” Masood Hyder, former United Nations humanitarian coordinator in North Korea has added that “above all, we [the U.N. agencies] have established preventive capacity: Another famine cannot happen while we are here and properly supported.”<sup>45</sup> WFP officials say they do not consider pulling out because thousands of lives would be lost, and because such a move would violate the agency’s mission of combating hunger regardless of operating conditions

<sup>45</sup> Masood Hyder, “In North Korea: First, Save Lives,” *The Washington Post*, January 4, 2004.

on the ground.<sup>46</sup> WFP officials also point to the progress they have made since 1995, in particular gaining more access to more counties and institutions, and achieving a greater degree of autonomy.<sup>47</sup>

According to WFP policy, it can withdraw assistance if a country has not met its obligations under the agreements signed between the government and the WFP. The WFP has curtailed food shipments to other countries, such as Zimbabwe, to pressure central governments to improve access or monitoring conditions. In 1997, the WFP reportedly used the threat of withdrawal to successfully pressure Pyongyang to open the northeastern provinces.<sup>48</sup> The WFP at times has halted specific programs in North Korea when it has not been able to determine satisfactorily that food donations were reaching their intended recipients.<sup>49</sup> Humanitarian aid workers, including WFP officials, have argued that member countries have not provided the WFP with sufficient backing to push North Korea to adhere to international standards of access and monitoring.<sup>50</sup> As discussed below, during the 1990s, U.S. and Japanese food aid was made contingent upon Pyongyang's cooperation on geostrategic matters rather than compliance with U.N. principles in the provision of humanitarian relief.

**North Korea's Motivations for Controlling Relief Assistance.** The presence of foreign aid workers inside North Korea directly threatens the myth of self-reliance, or *juje*, upon which DPRK ideology is based. Aid groups' demands for increased transparency appear to challenge two of the main pillars for perpetuating the government's political control: the control of information and the control of individual movement. The Flood Damage Rehabilitation Committee (FDRC) — the North Korean agency created in the mid-1990s to manage interaction with most foreign relief groups — has been tasked with preserving the government's strict political controls by minimizing contact with ordinary people and institutions, while simultaneously drawing in as many resources as possible.<sup>51</sup> As a result, while contact between foreigners and North Koreans has increased dramatically compared with the pre-1995 situation, rigid controls on humanitarian aid workers have led to little engagement relative to the amount of aid flowing into the DPRK. NGO representatives speculate that the tightening of restrictions on their activities in the fall of 2004 was the result of a greater wariness toward the outside world by North Korea's top leaders and/or the increased influence of those North Korean authorities who were uncomfortable with the growing access of foreign groups. The tightening

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<sup>46</sup> John Powell, May 2, 2002 testimony; Smith, *Overcoming Humanitarian Dilemmas*, p.14.

<sup>47</sup> Smith, *Overcoming Humanitarian Dilemmas*, especially p. 13-14.

<sup>48</sup> Natsios, *The Great North Korean Famine*, p. 175.

<sup>49</sup> John Powell, May 2, 2002 testimony.

<sup>50</sup> Natsios, *The Great North Korean Famine*, p. 188. John Powell, May 2, 2002 testimony, particularly the following statement: "I think the failure of the past 7 years has been to allow the WFP to negotiate on its own really and it has to be the full backing of the international community to push the North Koreans on this."

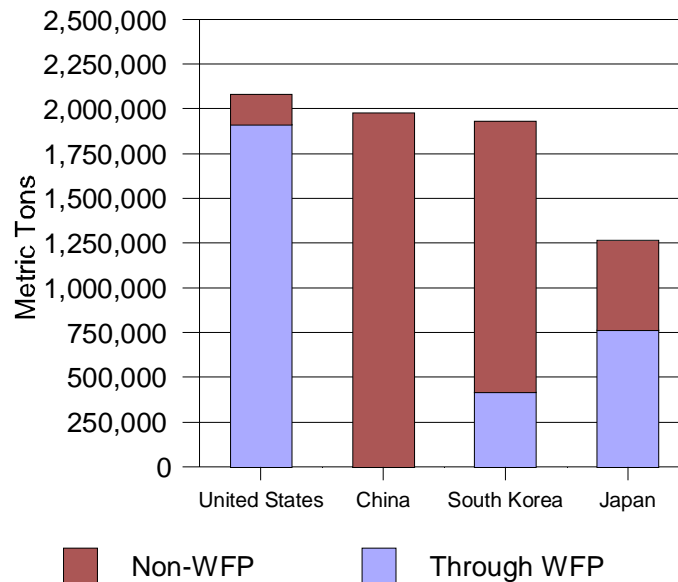
<sup>51</sup> Scott Snyder, "Lessons of the NGO Experience in North Korea," in Scott Snyder, et. al., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, 2003), p. 3, 113-19.

coincided with growing tensions between North Korea and the United States, South Korea, and Japan.<sup>52</sup>

## Individual Countries' Food Aid Programs

Four countries — the United States, China, South Korea, and Japan — together have given over 80% of the 8.34 million MT of food aid the WFP says North Korea received between 1996 and 2004. (See **Figure 4**.) According to the WFP, the United States, China, and South Korea each gave around 2 million MT during that period.

**Figure 4. Various Countries' Reported Food Aid to North Korea, 1996-2004**



Source: International Food Aid Information System (INTERFAIS)

**The United States.** Since 1997, the United States has sent over two million metric tons (MT) of assistance worth nearly \$700 million, over 90% of which has been channeled through the United Nations World Food Program (WFP). To put these figures in context, aid to North Korea constituted approximately 6.5% of total U.S. food aid between July 1995 and June 2001. Over the same period, the United States donated over \$4.5 billion to the World Food Program, roughly ten percent of which was designated for the WFP's relief efforts in North Korea. U.S. food assistance has fallen markedly since 2001. The United States requires that at least 75% of its food assistance be shipped to the northeastern provinces.

**Food Aid Policy During the Clinton Administration.** Despite the Clinton Administration's claim that food assistance to North Korea was not linked to security matters, it has been well documented that during the 1990s the United States used food aid to secure North Korea's participation and increased cooperation

<sup>52</sup> March and April 2005 e-mail and phone exchanges with WFP and NGO representatives.

in a variety of security-related negotiations.<sup>53</sup> Between 1997 and 1999, for instance, the Clinton Administration provided food to secure North Korea's participation in four-way security talks with the United States, South Korea, and China. The largest single U.S. pledge, over 500,000 MT in 1999, was provided as a *quid pro quo* for North Korea allowing access to a suspected underground nuclear site at Kumchangri.<sup>54</sup> Although the "food for talks" approach probably helped secure North Korea's participation in a number of talks (and was demanded by Pyongyang as a precondition for joining the talks), it did not appear to result in substantive changes in DPRK behavior. Since food aid essentially is controlled by the North Korean government, political linkages also may have directly helped to sustain the regime.<sup>55</sup> Linking food assistance to security issues was opposed on humanitarian grounds for leaving the WFP and relief groups with little leverage to negotiate better operating conditions inside North Korea.<sup>56</sup> It also has been criticized for sending the message to Pyongyang that North Korea could maintain its restrictions on food donors and avoid fundamental agricultural reform with little fear of jeopardizing future food shipments.<sup>57</sup>

**Food Aid Policy During the Bush Administration.** Though the Bush Administration generally has followed a food assistance policy that is more closely linked to humanitarian principles than was the case during the Clinton years, it too has given contradictory signals on food aid. Since June 2002, the Bush Administration officially has applied a different type of conditionality than was used during the Clinton years, linking the level of U.S. food aid to "verifiable progress" in North Korea allowing the humanitarian community greater access to all areas of the country, a nationwide nutritional survey, and improvements in the food aid monitoring system.<sup>58</sup> For months, the Administration officials made conflicting statements about whether it would continue donating food aid to North Korea, and if so, how much and whether such aid should be conditioned on North Korean actions in the humanitarian and/or security arenas. In December 2002, U.S. officials said that North Korea had not responded to the new U.S. conditions and that the Administration had made no decision on future food aid. In January 2003, President Bush said that he would consider offering the North a "bold initiative" including energy and food if the North dismantled its nuclear program. Also in January 2003, USAID Director Andrew Natsios was quoted as saying that food aid would not be continued if North Korea did not satisfy U.S. monitoring standards. State

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<sup>53</sup> Andrew Natsios, *The Great North Korean Famine. Famine, Politics, and Foreign Policy* (Washington, DC: United States Institute of Peace Press), Chapter 7; Marcus Noland, *Avoiding the Apocalypse. The Future of the Two Koreas* (Washington, DC: Institute for International Economics), 182-91.

<sup>54</sup> David Sanger, "N. Korea Consents to U.S. Inspection of a Suspect Site," *New York Times*, March 17, 1999.

<sup>55</sup> Snyder, "The NGO Experience in North Korea," pp. 4-5.

<sup>56</sup> Gordon Flake, "The Experience of U.S. NGOs in North Korea," in *Paved with Good Intentions: The NGO Experience in North Korea* (Praeger Publishers: Westport, CT, 2003), p.16.

<sup>57</sup> Natsios, *The Great North Korean Famine*; Noland, *Avoiding the Apocalypse*, p. 188-91.

<sup>58</sup> USAID Press Release, June 7, 2002.

Department spokesman Richard Boucher somewhat clarified these remarks, stating that the United States “will be a significant donor to North Korean food aid programs,” regardless of Pyongyang’s behavior, though the amount of aid would likely be contingent upon the monitoring question. Boucher also implied that the President’s mention of food referred to programs to support North Korea’s agricultural sector.<sup>59</sup> Ultimately, in February 2003, the Bush Administration announced that it would provide 40,000 MT of food assistance to the North Korea, via the WFP, with an additional 60,000 MT contingent upon the DPRK allowing greater access and monitoring.

On December 24, 2003, the State Department announced that the United States had decided to donate the additional 60,000 MT to the WFP’s 2003 North Korea appeal. The stated reason for providing the additional amount was the continued poor humanitarian situation in North Korea. Administration officials denied the decisions were motivated by a desire to influence the six-party talks. The official announcements also referred to improvements in North Korea’s cooperation with the WFP on access and monitoring, though those improvements were widely thought to be marginal.

On July 23, 2004, the State Department announced a 50,000 MT contribution to the WFP’s 2004 North Korea appeal. As of late May 2005, the Bush Administration had yet to make a decision on new pledges of food to the DPRK. On May 20, 2005, State Department spokesman Boucher said that the decision would be based on three factors: the need in North Korea, the ability to monitor food shipments, and competing needs on U.S. food assistance.<sup>60</sup>

Bush Administration officials report they have held a number of meetings with their North Korean counterparts to discuss the ways in which North Korea could address monitoring and access issues in exchange for increased U.S. food assistance. North Korea reportedly has failed to respond to these proposals. The Administration also has asked the South Korean and Chinese governments to donate food through the WFP and to press North Korea to allow better access and monitoring of their bilateral food aid.<sup>61</sup>

**Competition for Food Aid Resources.**<sup>62</sup> The debate over whether and how to provide food aid to North Korea has been made more acute by competition with other emergency situations — particularly those in Sudan, Ethiopia, and the countries hit by the December 26, 2004 Indian Ocean tsunami — where access and

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<sup>59</sup> “President Bush Discusses North Korea,” White House Transcript, January 14, 2003, [<http://www.whitehouse.gov>]; Irwin Arief, “US Interrupts North Korea Food Aid,” *Reuters*, January 13, 2003; State Department Daily Press Briefings by Spokesman Richard Boucher, January 14 and 15, 2003, [<http://www.state.gov>].

<sup>60</sup> Richard Boucher, State Department Daily Press Briefing, May 20, 2005.

<sup>61</sup> USAID, *Report on U.S. Humanitarian Assistance to North Koreans*.

<sup>62</sup> This section borrows heavily from CRS Report RS22027, *Indian Ocean Earthquake and Tsunami: Food Aid Needs and the U.S. Response*, and Issue Brief IB98006, *Agricultural Export and Food Aid Programs*, both by Charles Hanrahan.



transparency are less of an issue. These competing demands have stretched U.S. food aid resources for FY2005. For instance, of the nearly \$1.2 billion in regular FY2005 appropriations for the P.L. 480 Title II food assistance program, all but \$33 million had been allocated as of early April 2005. Congress approved an additional \$240 million for Sudan and other emergencies in Africa in May 2005 as part of the emergency FY2005 supplemental (P.L. 109-13), but some believe that amount will fall short of existing demands. Historically, P.L. 480 has been the main vehicle for providing U.S. agricultural commodities as food aid overseas, and since the end of FY2002 has been the program that has funded nearly all of the U.S. food commitments to North Korea. Congress directly appropriates P.L. 480 aid, and therefore could, although it rarely does, direct how the food should or should not be disbursed. Some Members of Congress have asked the Administration to release food and funds from the Bill Emerson Humanitarian Trust, a reserve of commodities and cash that is intended to provide food aid when Title II aid is unavailable, for the emergency food situation in Ethiopia. However, in early April 2005, the trust held just 1.4 million MT of its 4 million MT of capacity and only about \$89 million in cash.<sup>63</sup>

Another food aid program, section 416(b) of the Agricultural Act of 1949, is unlikely to be available. From FY1999-FY2002, most of U.S. food assistance to North Korea was provided under the 416(b) program, which is administered by the U.S. Department of Agriculture (USDA) and allows for surplus food stocks owned by USDA's Commodity Credit Corporation (CCC, the government corporation that finances domestic commodity price support programs, and some food aid and export programs) to be donated to nations in need. The heavy use of the Section 416(b) program was facilitated by a sharp rise in CCC-acquired food-stocks from 1999 through 2001. Since then, however, these stocks have fallen dramatically. Additionally, the Bush Administration has made a policy decision, issued in its FY2003 budget proposal, that surplus commodities should not be used for food aid.

**China's Food Aid and Food Exports.** Since the Soviet Union withdrew its patronage of North Korea in the early 1990s, China is widely believed to have emerged as the single largest provider of food to North Korea, though the precise amount is difficult to estimate due to lax controls on the North Korea-China border and the overall unreliability of official Chinese statistics. Additionally, food from China is known to enter the North on commercial, concessional, and barter terms, making it difficult to distinguish aid from trade.<sup>64</sup> In the mid-1990s, during the height of the first North Korean nuclear crisis, China cut its food shipments to the DPRK dramatically, perhaps by as much as 80% - 90%, only to restore them in 1996 and 1997 with the onset of famine, which threatened the possibility of a North Korean collapse and was leading to increased numbers of North Koreans crossing the border into northeastern China.<sup>65</sup> As discussed below, in the section on energy

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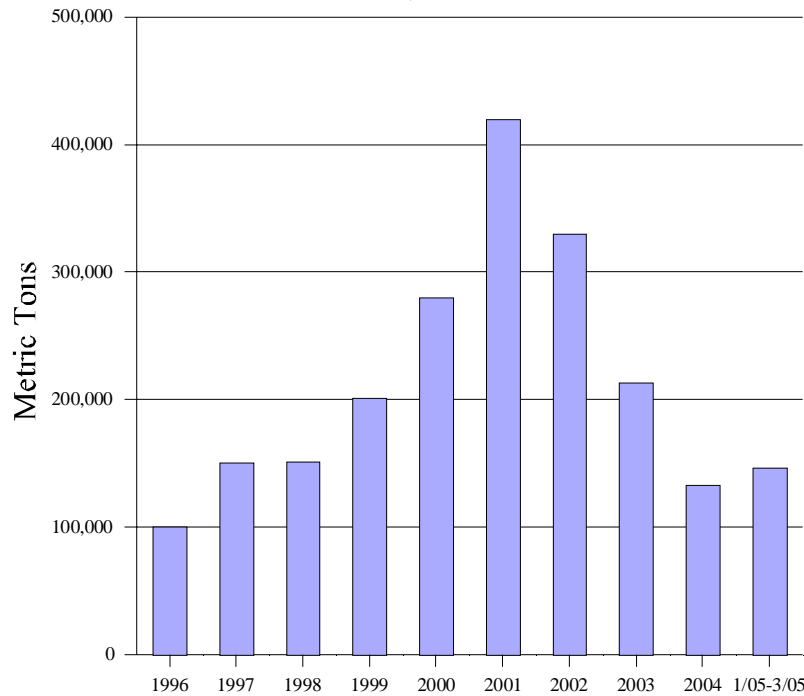
<sup>63</sup> Charles Hanrahan, CRS Report RS22027, *Indian Ocean Earthquake and Tsunami: Food Aid Needs and the U.S. Response*, updated April 8, 2005.

<sup>64</sup> Marcus Noland, *Avoiding the Apocalypse. The Future of the Two Koreas*, (Washington, DC: Institute for International Economics, 2000), 187-88.

<sup>65</sup> China officially justified this move as a response to budget pressures and state-owned (continued...)

assistance, Chinese fuel shipments to North Korea have been much larger and more consistent than its food exports. Many observers believe Beijing has promised North Korea food and fuel in exchange for its participation in the six-party nuclear talks.

**Figure 5. Deliveries of Chinese Food Aid to North Korea, 1996-2005**



Source: WFP INTERFAIS Database (2005)

According to WFP statistics, which are obtained from the Chinese government, since 1996, China has provided North Korea with roughly 2 million MT of food assistance. Chinese official food aid to North Korea has fallen in recent years, though in the first three months of 2005 China sent over 140,000 MT, compared with just over 130,000 MT for all of 2004.<sup>66</sup> However, the WFP data do not include Chinese food exports to North Korea, at least some of which is provided at “friendship prices.” According to Beijing’s official customs statistics, for instance, China exported nearly 2.6 million MT of cereals to the North between 1996 and

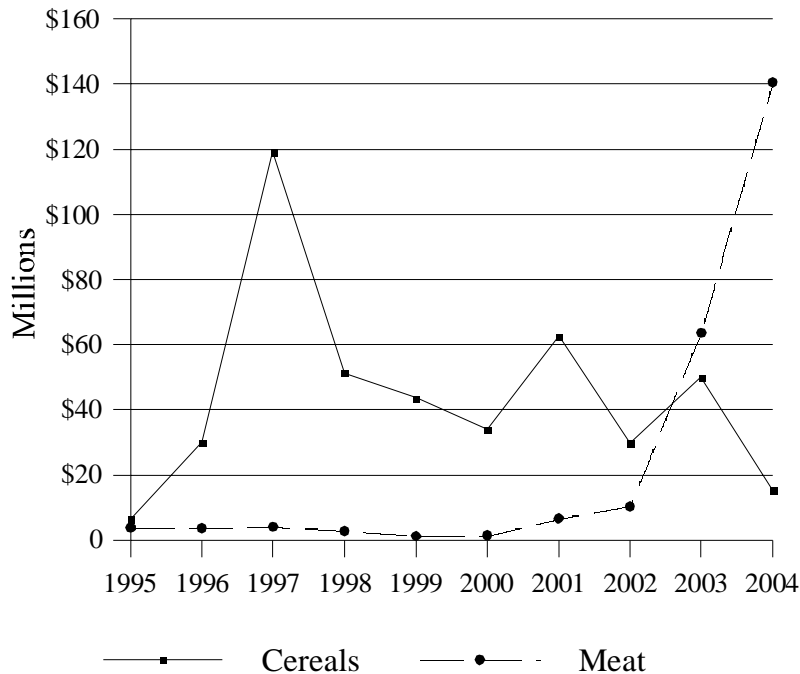
<sup>65</sup> (...continued)

enterprises’ increased resistance to continue subsidizing aid to North Korea. See Noland, *Avoiding the Apocalypse*, p. 187-88. Later, in 1997, China reportedly threatened to scale back its food aid after North Korea rejected Chinese advice to adopt market-oriented reforms in its agricultural sector. North Korea then began negotiating a large food aid deal with Taiwan, prompting Beijing to reverse its position and continue providing aid. See Natsios, *The Great North Korean Famine*, p. 139.

<sup>66</sup> Joseph Kahn and David E. Sanger, “China Rules Out Using Sanctions On North Korea,” *New York Times*, May 11, 2005.

2000.<sup>67</sup> If these figures are accurate, China's total food shipments were nearly double the entire WFP shipments and nearly triple the U.S. level for the same period. Some reports indicate that China's food assistance may be considerably higher than officially reported, perhaps as high as 1 million tons annually during the late 1990s.<sup>68</sup> Figure 6 charts the year-by-year value of Chinese exports of cereals (principally rice and corn) and meat. Meat exports increased by a factor of 14 from 2002 to 2004, due to a surge in shipments of pork.

**Figure 6. Chinese Food Exports to North Korea, 1995-2004**



Source: Global Trade Atlas

**Food Aid from South Korea.** South Korea has provided North Korea with nearly 2 million MT of governmental food aid since 1996, a figure that does not include an additional 300,000 MT Seoul pledged in 2004 and likely will be delivered in 2005. Nearly all of Seoul's humanitarian aid to Pyongyang has been sent since 2000, when relations between North and South Korea began improving dramatically under the "sunshine policy" of engagement pursued by then President Kim Dae Jung. Current ROK President Roh Moo-hyun has expanded the policy by continuing humanitarian assistance and increasing funding for two major inter-Korean projects: the reconnecting of inter-Korean roads and rail lines, and the creation of an industrial park in the North Korean city of Kaesong. Until 2005, funding for existing South Korean aid programs appeared to be unrelated to developments in the overall security environment, though South Korean government officials have stated that major new

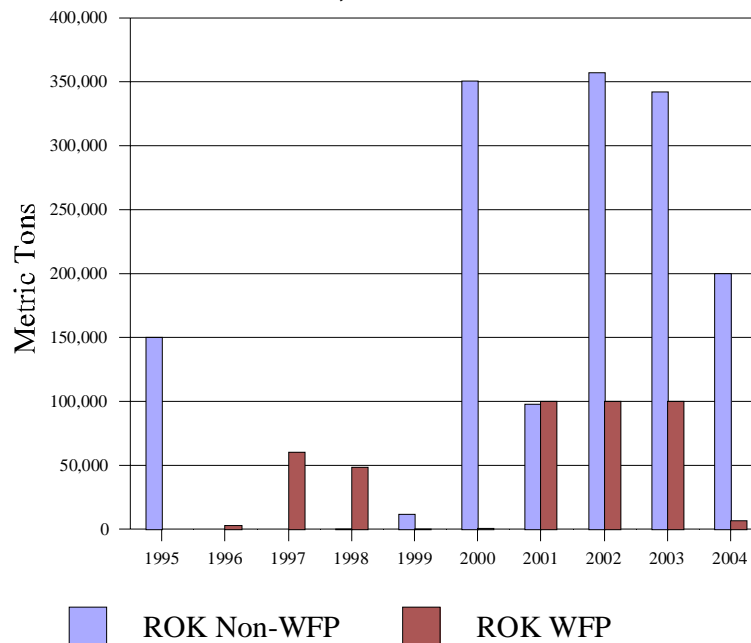
<sup>67</sup> Cited in March 2003 e-mail correspondence with Nicholas Eberstadt and Heather Dresser of the American Enterprise Institute.

<sup>68</sup> Noland, *Avoiding the Apocalypse*, 187-88.

projects would not be initiated until the nuclear situation was resolved. In 2005, Seoul linked provision of humanitarian assistance to North Korea returning to the bilateral reconciliation process, which it had halted in July 2004.

South Korea has filled much of the food gap created when other countries' donations to North Korea began to drop in 2002. About three-quarters of South Korea's food is sent bilaterally to North Korea, a method that has drawn criticism from some observers because Pyongyang permits South Korea to conduct only minimal monitoring of its food assistance. The bilateral shipments are sold to the North Korean government, which pays for the food via a loan from the South Korean Export-Import Bank. The loans are to be repaid in a twenty-year installment plan, which begins after a ten-year grace period (*i.e.* the full length of the loan is thirty years) at a 1% annual rate of interest. As of early June 2005, South Korea had yet to pledge additional food assistance to North Korea, despite reports of Pyongyang requests for aid. During inter-Korean vice-ministerial level talks in May 2005, ROK officials reportedly told the North Koreans they would discuss food assistance only if North Korea agreed to restart inter-Korean dialogue, which Pyongyang had halted in July 2004.<sup>69</sup> During the meeting, the two Koreas agreed to resume inter-ministerial level talks — which had been held quarterly for about two years until North Korea's walkout — in June 2005.

**Figure 7. Deliveries of ROK Food Aid to North Korea, 1995-2004**



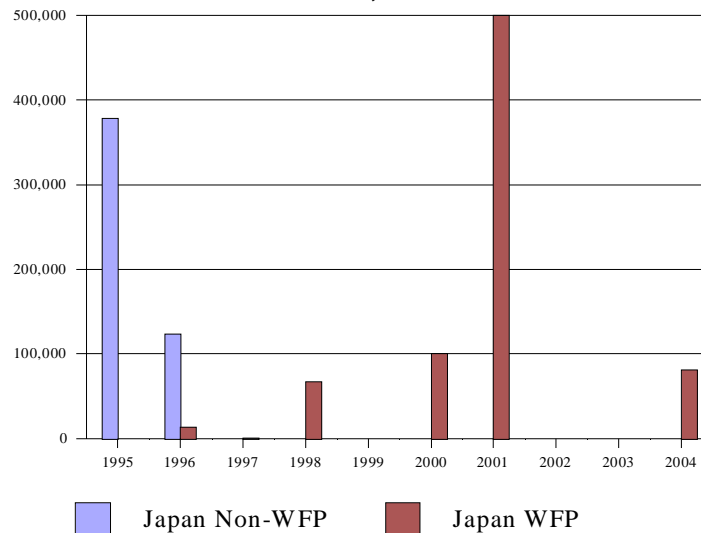
Source: WFP INTERFAIS database (2005)

<sup>69</sup> "South Offers North Payoff for 6-Way Talks," *JoongAng Ilbo*, May 17, 2005.

From 1999 - 2004, South Korea also gave North Korea over 1.5 million MT of fertilizer, including 300,000 MT annually from 2002-04.<sup>70</sup> (See **Table 6** in the Appendix for a detailed, non-exhaustive account of South Korean expenditures on inter-Korean relations) In early 2005, North Korea reportedly requested 500,000 MT of food from South Korea, but Seoul refused until Pyongyang agreed to restart high-level dialogue. In a vice-ministerial meeting between the two Koreas in May 2005, the first high-level inter-Korean meeting in nearly a year, South Korea agreed to provide 200,000 MT of fertilizer aid.

**Food Aid from Japan.** Japan has given its food aid episodically, and has linked its donations to the state of its relations with North Korea. Much (500,000 MT) of Japan's 1.2 million MT total contribution to North Korea came in one year, 2001. The subsequent downturn in Pyongyang-Tokyo relations led Japan to discontinue its food aid until 2004, when Japan pledged 250,000 MT following the May 2004 summit between Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il. However, only 80,000 of the pledge was actually delivered in 2004, after bilateral relations took a downturn later in the year, leading Japan to once again halt food assistance. The deterioration in relations has been primarily due to the lack of progress in resolving the issue of North Korea's kidnapping of several Japanese in the 1970s and 1980s. Since 1997, all of Japan's donations have been channeled through the WFP. In 2004, Japanese teams traveled to North Korea to monitor the WFP's distribution of Japanese food aid.

**Figure 8. Deliveries of Japanese Food Aid to North Korea, 1995-2004**



Source: WFP INTERFAIS database (2005)

<sup>70</sup> Fertilizer figures are from the Washington, DC South Korean Embassy.

## Energy Assistance

### KEDO

The October 21, 1994 U.S.-North Korean Agreed Framework offered North Korea a package of benefits in return for a freeze of North Korea's nuclear program. Benefits promised to North Korea, which have been provided by the multinational Korean Peninsula Energy Development Organization (KEDO), include the construction of two light water nuclear reactors totaling 2,000 electric megawatts and annual 500,000 ton shipments of heavy fuel oil to North Korea that were to continue until the first light water reactor is built. The annual heavy fuel oil shipments were roughly equivalent to the energy North Korea lost from shutting down its nuclear power plants. Between 1995 and 2003, the United States provided over \$400 million to KEDO, of which nearly \$380 million went towards heavy fuel oil shipments and the remainder for the organization's administrative expenses.

The United States is the third-largest contributor to KEDO, following South Korea, which has contributed over \$1.3 billion, and Japan (\$480 million). (See **Table 2.**) South Korea and Japan have provided the bulk of the funding for building the reactors, for KEDO's administrative costs, and for funding the plan to suspend the reactor construction. The United States funded over three-quarters of the total for the shipment of heavy fuel oil (HFO) to the DPRK. The European Union has provided \$95.8 million, or nearly 20% of the HFO costs.<sup>71</sup>

Following KEDO's suspension of its heavy fuel oil deliveries to the DPRK in November 2002, U.S. funding for KEDO fell to \$3.7 million in 2003 (for administrative expenses), and to zero thereafter. In November 2003, KEDO's Executive Board decided to suspend construction of the partially-built nuclear reactors for one year, a decision that was repeated in November 2004. In May 2005, it was announced that the contract of KEDO's Executive Director, Charles Kartman, had not been renewed. The Bush Administration's position is that it would like to terminate KEDO's construction of the light-water reactors.<sup>72</sup>

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<sup>71</sup> The EU has channeled its contributions through the European Atomic Energy Commission (EAEC). Most of the EU's annual contributions to KEDO have been unrestricted and, therefore, not dedicated to any specific activity. From 1996-2001, KEDO allocated virtually all of the EU's annual contribution (euro 15 million from 1996-2000 and euro 20 million from 2001 to the present) to pay for heavy fuel oil shipments. All of the EU's 2002 contribution of euro 20 million has been used to pay for construction of the light water reactor in North Korea.

<sup>72</sup> State Department Daily Press Briefing by Adam Ereli, Deputy Spokesman, November 5, 2003.

**Table 2. KEDO Contributions, Various Countries**  
(\$ millions)

	<b>ROK</b>	<b>Japan</b>	<b>US</b>	<b>EU</b>
Total (1995-2004)	1,364.4	480.9	405.1	121.4
<i>2003-2004</i>	<i>470.0</i>	<i>147.5</i>	<i>3.7</i>	<i>2.4</i>

Source: KEDO

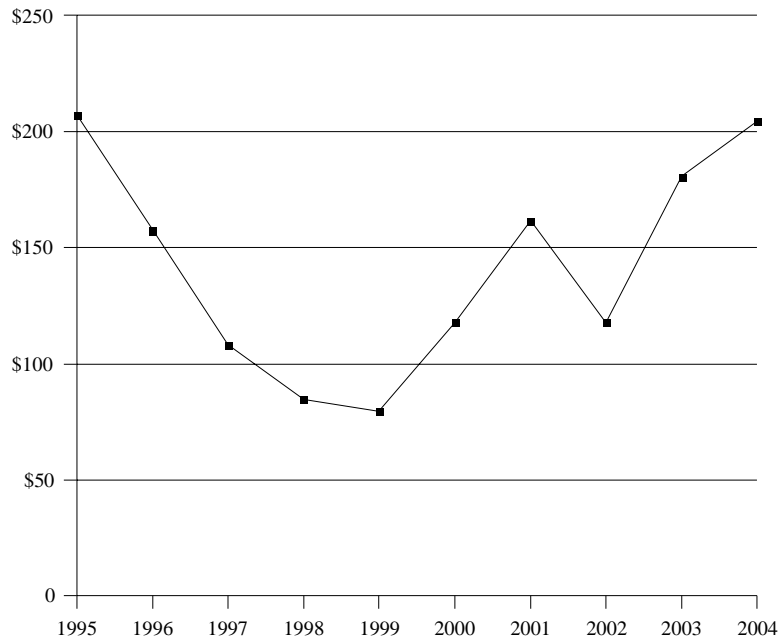
Since construction on the light-water reactors was suspended, KEDO's staff at headquarters in New York was reduced to 38, from 50 at the end of 2001. Over one hundred caretaker workers remain at Kumho, where they perform security, maintenance, and preservation tasks for the partially constructed reactors. These activities are funded primarily by South Korea and Japan. Over 1,400 workers were at the site at the end of 2001. After the suspension was announced, North Korea refused to allow KEDO to remove certain types of equipment from the Kumho site, in violation of agreements signed between KEDO and the North Korean government.<sup>73</sup>

## Chinese Fuel Shipments

Chinese shipments of petroleum and coal products to North Korea are believed to be quite significant to the North Korean economy. As figure 9 shows, the value of Chinese fuel exports — some of which is presumably obtained at “friendship prices” — generally has been over \$100 million per year. China's fuel shipments nearly doubled in the two years after the KEDO Executive Board halted heavy fuel oil deliveries in November 2002.

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<sup>73</sup> For instance, Article IV, paragraph 9 of the 1995 DPRK-KEDO Supply Agreement reads “The DPRK shall not interfere with the repatriation, in accordance with customs clearance procedures, by KEDO, its contractors and subcontractors of construction equipment and remaining materials from the LWR [light-water reactor] project.”

**Figure 9. Chinese Fuel Shipments to North Korea, 1995-2004**

Source: Global Trade Atlas

## Other Forms of U.S.-North Korean Economic Interaction

Tensions over North Korea's nuclear program have increased interest in all forms of U.S. economic interaction with the DPRK, including trade flows and the U.S. Defense Department's program to recover the remains of servicemen missing from the Korean War.

### U.S.-North Korean Trade and Investment

Following North Korea's invasion of the South in June 1950, the United States imposed a nearly complete economic embargo on the DPRK. In September 1999, President Clinton announced that the United States would ease economic sanctions against North Korea affecting most trade and travel. Today, trade and related transactions are generally allowed for other than dual-use goods (*i.e.*, items that may have both civilian and military uses). U.S. citizens may travel to North Korea; there are no restrictions on the amount of money one may spend in transit or while there.<sup>74</sup>

Despite the easing of most trade restrictions, trade and investment between North Korea and the United States has remained virtually non-existent. As **Table 3** shows, trade flows have varied widely from year to year, with no seeming pattern.

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<sup>74</sup> Rennack, *North Korea: Economic Sanctions*.



Bilateral trade consists almost exclusively of U.S. exports, which tend to be agricultural items. One reason for the absence of North Korean exports on the U.S. market could be continued restrictions, particularly the fact that the DPRK does not have most-favored-nation status (also called normal trade relations status), which means that North Korean products face significantly higher tariff rates relative to those applied to products imported from other countries.

**Table 3. U.S.-North Korea Trade, 1993-2003**  
(\$ thousands)

Year	U.S. Imports	U.S. Exports	Total	Year	U.S. Imports	U.S. Exports	Total
1993	0	1,979	1,979	1999	0	11,265	11,265
1994	0	180	180	2000	154	2737	2,891
1995	0	5,007	5,007	2001	20	650	670
1996	0	541	541	2002	15	25,012	25,027
1997	0	2,409	2,409	2003	59	7,977	8,036
1998	0	4,454	4,454	2004	77	23,750	23,827

**Source:** U.S. International Trade Commission

However, a more probable cause is North Korea's lack of export competitiveness and relative economic isolation from the rest of the world. North Korea has faced few or no barriers to exporting to Japan and the European Union, for instance. While its exports to those areas are far greater than to the United States, the absolute values are minuscule compared with countries of comparable size that are integrated into the global trading system. North Korea's failure to generate export revenue is a major reason the country is unable to import food on commercial terms to make up for its chronic food shortage. In turn, the overall uncompetitiveness of North Korean enterprises is a direct result of Pyongyang's unwillingness to engage in fundamental economic reforms, leading some commentators to opine that international assistance actually has allowed North Korea's leadership to avoid instituting more market-oriented policies.<sup>75</sup>

There is virtually no U.S. foreign direct investment in North Korea. The American Chamber of Commerce in South Korea has attempted to arrange exploratory trips to the North, but has not received the necessary visas from the DPRK government. Even if North Korea were to allow a delegation to visit, it is likely that most U.S. investors would be deterred by the country's chronic shortages, widespread corruption, lack of legal infrastructure, sudden economic policy reversals, and North Korean enterprises' past history of failing to pay foreign firms for services or goods rendered.

<sup>75</sup> See, for instance, Noland, *Avoiding the Apocalypse*, pp. 107-110.

## Funds from U.S. POW/MIA Recovery Efforts in the DPRK

Since 1993, the Department of Defense's Prisoner of War/Missing Personnel Office (DPMO) has provided North Korea with nearly \$28 million for assistance in recovering the suspected remains of the several thousand U.S. servicemen unaccounted for during the Korean War.<sup>76</sup> Most of the funds have been used to pay for the costs of over 32 joint field activities that have been conducted in North Korea since 1996, operations that have recovered over 220 probable U.S. remains.<sup>77</sup> (See **Table 4** below) These figures do not include costs of flying a North Korean delegation to Bangkok for annual negotiations about future joint field operations. DPMO estimates the cost of flying a seven-person North Korean team, which has been done since 2002, at \$25,000, a figure the office says is cheaper than conducting the negotiations in other locations.

As with joint recovery operations in Vietnam, Laos, and other countries, the payments are calculated by negotiating the compensation provided for the workers, materials, facilities and equipment provided by the North Korean People's Army (KPA) and other North Korean government entities. Payment is provided in cash deliveries — via the United Nations Command in South Korea — to the KPA in installments during the course of the calendar year's operations. The size, scope, and location of the recovery operations are negotiated annually, and the size of the compensation package varies accordingly. Defense Department officials report that while operating conditions in North Korea are far from ideal, the scale of the operations increased gradually significantly from 1996 to 2001 and has varied in scale since.<sup>78</sup>

On May 25, 2005, the U.S. Department of Defense announced it was “temporarily” suspending the joint recovery operations, ostensibly due to “force protection” concerns over the safety of U.S. search teams, which operate without any means of communicating outside North Korea. A Defense Department statement said the operations would continue after North Korea has “created an appropriate environment.” In May 26 congressional testimony, Deputy Assistant Secretary of Defense Richard Lawless indicated that the Pentagon had asked the North Koreans to alter the terms of the search agreement to allow U.S. military personnel a way to communicate in emergencies. One search team had completed its mission before the announcement was made.<sup>79</sup>

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<sup>76</sup> Estimates vary as to the number whose deaths might result in remains being found in North Korea; the range is roughly between 2,000 and 9,000. In an April 2005 e-mail exchange, DPMO put the total at “more than 8,000.” For more on the POW/MIA issue, see CRS Issue Brief IB92101, *POWs and MIAs: Status and Accounting Issues*, by Robert Goldich.

<sup>77</sup> April 2005 e-mail correspondence with DPMO. Between 1990 and 1994, North Korea unilaterally returned over 200 remains, virtually all of which were unidentifiable.

<sup>78</sup> February 2003 briefing by and April 2005 e-mail correspondence with DPMO officials.

<sup>79</sup> Bradley Graham, “U.S. Halts Missions To Recover Remains In N. Korea,” *Washington Post*, May 26, 2005; May 26, 2005 hearing before the House International Relations (continued...)

**Table 4. U.S. Payments to North Korea for Joint POW/MIA Recovery Activities, 1996-2005**  
(\$ millions)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
\$0.1	\$0.3	\$0.7	\$1.3	\$2.1	\$4.4	\$3.1	\$2.1	\$5.0	\$1.5 <sup>a</sup>	\$20.5

**Source:** Department of Defense's Prisoner of War/Missing Personnel Office

a. First payment of \$5.5 million.

## U.S. Policy Options for Aid to North Korea

Congress and the Administration have a variety of options for future assistance to North Korea. Given the suspension of the KEDO project, the immediate decisions will revolve around food aid, particularly given increased demand for food assistance from other areas of the world. Additionally, if talks with North Korea over its nuclear program begin and score a breakthrough, there will likely be consideration of a broader economic assistance package.

As discussed earlier, any decision by the United States to apply sanctions, impose a *de facto* quarantine, or economically suspend or terminate its current aid would be expected to have a limited economic effect on North Korea because in the short-to-medium term, China and/or South Korea — which place a high priority on maintaining North Korea's stability — could increase their own assistance to compensate. **Table 6**, in the appendix, shows the dramatic increase in the South Korean government's expenditures on engaging North Korea since the June 2000 summit between Kim Jong-il and Kim Dae Jung. The bulk of these funds, which are in the \$500 million per year range, constitute direct or indirect assistance to the DPRK. Moreover, in addition to aid, Beijing and Seoul are by far North Korea's largest trading partners. (See **Table 5**.)

### Food Aid Options

Options for food aid policy include:

- **Provide food aid unconditionally.** The core humanitarian argument for continuing aid regardless of the North Korean government's actions is that a major reduction in assistance could lead to another famine. Proponents of continued assistance take issue with criticism that international aid enables the North Korean government to divert resources to the country's military and elite. They argue that because humanitarian priorities are unlikely to dictate the North Korean regime's priorities, foreign assistance is the only hope for feeding the bulk of the population, at least in the

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<sup>79</sup> (...continued)

Subcommittee on Asia and the Pacific.

immediate term.<sup>80</sup> Many also argue that food aid provides an opportunity for exposing North Koreans to the outside world, by virtue of the permanent and reasonably extensive monitoring presence maintained by the WFP and other aid groups. An additional diplomatic benefit of providing food aid unconditionally is that it might weaken criticism in South Korea of the Bush Administration's policy toward the DPRK; U.S. food shipments lend support to President Bush's often-stated approach of supporting the North Korean people despite his concerns about the regime.<sup>81</sup>

- **Discontinue food aid.** This option has been proposed both on security and humanitarian grounds. Cutting off food assistance could be used as part of an isolation strategy or an attempt to trigger the collapse of the North Korean regime. The effects of the United States suspending food assistance may be undercut, however, by increased shipments from China or South Korea. From a humanitarian perspective, sending food to North Korea arguably diverts limited supplies of food aid from other needy, and more accountable, countries. Furthermore, as discussed above, some argue that the volume and consistency of international aid has enabled the North Korean government to avoid importing food, allowing it to spend hard currency on other items.<sup>82</sup>

Options between these extremes include:

- **Establish "external" linkages - condition future food aid on progress in political and security-related talks,** such as negotiations regarding the North's nuclear programs. Emphasizing geostrategic concerns might lead to greater immediate cooperation in certain negotiations from Pyongyang. China and Japan have had some short-term successes in linking their food assistance to North Korean cooperation on other issues. In China's case, it appears to have helped secure North Korea's participation in various rounds of six-party talks. For Japan, promises of food aid have helped in resolving some issues of North Korea's abductions of Japanese citizens in the 1970s and 1980s. However, in both the Japanese and Chinese cases, it is not clear that the provision of food has induced significant changes in North Korea's overall behavior on security issues. Likewise, the huge U.S. provision of food aid in 1999, may have helped obtain an inspection of the suspected nuclear site at Kumchangri, but it did not prevent North Korea from pursuing a

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<sup>80</sup> Hyder, "In North Korea: First, Save Lives."

<sup>81</sup> See, for instance, President Bush's February 20, 2002 remarks at the Demilitarized Zone, [<http://www.whitehouse.gov/news/releases/2002>].

<sup>82</sup> Scott Snyder, "The NGO Experience in North Korea," in Scott Snyder and Gordon Flake, eds., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming, 2003), p. 7.

separate uranium enrichment nuclear program. Additionally, this approach runs the risk of encouraging the North Korean government to believe it does not need to comply with humanitarian relief groups' demands. Any attempts to link food aid or sales to foreign policy or national security objectives would have to be reconciled with recent congressional and executive efforts to delink the two.<sup>83</sup>

- **Establish “internal” linkages by conditioning future food aid on improvements in access and monitoring**, as USAID Director Andrew Natsios has argued in the past.<sup>84</sup> Establishing such internal linkages, however, is unlikely to induce much change in North Korea so long as it is dwarfed by unmonitored Chinese and South Korean assistance.
- **Maintain the status quo of a hybrid approach to food aid.** In theory, the Administration essentially has adopted a hybrid approach of giving a base amount of aid unconditionally and linking food above this amount to progress in monitoring and other items related to the relief effort. The Administration's relatively loose application of its official policy, however, shows the difficulties in practice of divorcing humanitarian assistance from the overall security environment.

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<sup>83</sup> In 2000, Congress passed, and President Clinton signed into law, the Trade Sanctions Reform and Export Enhancement Act of 2000 (title IX of H.R. 5426, enacted by reference in P.L. 106-387) to remove food and medicine from U.S. sanctions policy, though some restrictions were maintained for terrorist states. For further information see CRS Report RL30384, *Economic Sanctions: Legislation in the 106th Congress*, by Dianne Rennack and CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions*, by Remy Jurenas.

<sup>84</sup> Natsios, *The Great North Korean Famine*.

**Table 5. North Korea's Trade with Major Partners, 2001-2003**  
(thousands of dollars)

	2003			2002			2001		
	Total	NK Export	NK Import	Total	NK Export	NK Import	Total	NK Export	NK Import
<b>All Countries</b>	<b>3,115,592</b>	<b>1,066,244</b>	<b>2,049,347</b>	<b>2,902,118</b>	<b>1,006,567</b>	<b>1,895,551</b>	<b>2,663,345</b>	<b>911,162</b>	<b>1,752,183</b>
<i>Share</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>
China	1,022,927	395,344	627,583	738,172	270,863	467,309	737,457	166,797	570,660
	<i>33%</i>	<i>37%</i>	<i>31%</i>	<i>25%</i>	<i>27%</i>	<i>25%</i>	<i>28%</i>	<i>18%</i>	<i>33%</i>
South Korea	724,217	289,252	434,965	641,730	271,575	370,155	402,957	176,170	226,787
	<i>23%</i>	<i>27%</i>	<i>21%</i>	<i>22%</i>	<i>27%</i>	<i>20%</i>	<i>15%</i>	<i>19%</i>	<i>13%</i>
Japan	265,318	173,818	91,500	369,541	234,404	135,137	474,695	225,618	249,077
	<i>9%</i>	<i>16%</i>	<i>4%</i>	<i>13%</i>	<i>23%</i>	<i>7%</i>	<i>18%</i>	<i>25%</i>	<i>14%</i>
EU	n/a			347,690	65,031	282,659	313,523	81,062	232,461
				<i>12%</i>	<i>6%</i>	<i>15%</i>	<i>12%</i>	<i>9%</i>	<i>13%</i>
Thailand	254,317	50,706	203,611	216,582	44,616	171,966	130,062	24,098	105,964
	<i>8%</i>	<i>5%</i>	<i>10%</i>	<i>7%</i>	<i>4%</i>	<i>9%</i>	<i>5%</i>	<i>3%</i>	<i>6%</i>
United States	8,036	59	7,977	25,027	15	25,012	670	20	650
	<i>0.3%</i>	<i>0%</i>	<i>0%</i>	<i>0.9%</i>	<i>0.0%</i>	<i>1.3%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Other Countries	840,777	157,065	683,711	563,376	120,063	443,313	603,981	237,397	366,584
	<i>27%</i>	<i>15%</i>	<i>33%</i>	<i>20%</i>	<i>12%</i>	<i>25%</i>	<i>23%</i>	<i>26%</i>	<i>21%</i>

**Source:** KOTRA (Korea Trade Investment Promotion Agency), Ministry of Unification, U.S. ITC

**Notes:** "All Countries" includes North Korea's Trade with South Korea. NK import figures include foreign aid.

- **Channel aid through non-governmental organizations (NGOs).**<sup>85</sup> Most relief NGOs operating in North Korea are forced to operate under the same, if not more rigid, controls as the WFP.<sup>86</sup> U.S. NGOs operate under particularly tight scrutiny. They are not permitted to maintain permanent offices inside North Korea. Additionally, numerous South Korean NGOs operate in North Korea, often with financial backing from Seoul. A few relief groups report they have overcome many obstacles to monitoring assistance, particularly gaining access to aid recipients and using their own Korean-speaking staff. The more successful U.S. NGOs appear to be relatively small, affiliated with a U.S. religious groups, and focused on ongoing niche areas such as rebuilding North Korea's health care system, rather than on emergency relief.<sup>87</sup> These organizations' relative degree of success may be partly attributable to the size of their operations, which allows some to set up their own distribution system independent of the public distribution system and to deal principally with more cooperative local North Korean officials. Some of these advantages might be negated if the groups began to receive large amounts of funding from the U.S. government. Additionally, NGO representatives report that they were hard hit by the DPRK's tightening of restrictions in the fall 2004.

A past U.S. public-private initiative yielded mixed results similar to those reported by the WFP. From 1997 to 2000, the U.S. government provided over 155,000 MT of food aid to be distributed by the Private Voluntary Organization Consortium (PVOC), which included several private relief groups operating in North Korea. The PVOC estimated that the food for one program, to distribute 100,000 MT to laborers participating in food-for-work projects, reached nearly 2.7 million people in 110 North Korean counties. However, the Consortium reported the North Korean government's restrictions made it difficult to adequately monitor the distribution of the food. Citing these difficulties, one member, CARE, withdrew from the PVOC in June 2000.<sup>88</sup>

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<sup>85</sup> Among those who have argued for this approach is Timothy A. Peters, director of the relief groups Helping Hands Korea and the Ton-a-Month Club, two Seoul-based humanitarian organizations that attempt to provide assistance to North Koreans. See Peters' testimony before the House International Relations Subcommittee on East Asia and the Pacific, May 2, 2002, [[http://wwwa.house.gov/international\\_relations/](http://wwwa.house.gov/international_relations/)].

<sup>86</sup> Snyder, et. al., *The NGO Experience in North Korea*.

<sup>87</sup> Flaker, "The Experience of U.S. NGOs in North Korea," p.31-35.

<sup>88</sup> United States General Accounting Office (GAO), *U.S. Bilateral Food Assistance to North Korea Had Mixed Results*, GAO/NSIAD-00-175, June 2000, [<http://www.gao.gov/>].

- **Increase pressure on South Korea and China to channel their food aid through the WFP.**<sup>89</sup> WFP officials have said that the large bilateral, and largely unmonitored, donations South Korea and China undermine their efforts to negotiate increased access and transparency. Although U.S. working level officials have raised the issue with their South Korean and Chinese counterparts, it is not clear whether higher level officials have done so.

## KEDO Options

With regard to KEDO, the U.S. has several options, including: resume heavy fuel oil payments; continue to make payments for KEDO's operational expenses but not for heavy fuel oil; suspend all payments to KEDO; or push to terminate all or parts of the KEDO program. Suspending without terminating KEDO arguably has bought the United States more time and avoided further antagonizing North Korea by maintaining the ambiguous status of the Agreed Framework — from which neither the United States nor North Korea have officially withdrawn. South Korea and Japan have opposed permanently shutting down KEDO, which the Bush Administration has said it favors. Some policymakers and observers have spoken of terminating KEDO's light-water reactor program but preserving its organizational structure, in order to make use of KEDO's functional expertise and history of working with North Korea in future energy initiatives with Pyongyang.

## Development Assistance Options

As mentioned earlier, President Bush has said that the United States would consider offering North Korea a broad development aid package if the DPRK cooperates on security issues. Options include:

- **Provide energy assistance.** President Bush has referred to such programs in mentioning a broad assistance package that the U.S. would discuss if North Korea verifiably dismantles its nuclear program. While the President has considerable flexibility in funding short-term initiatives, longer-term programs would likely require congressional action to waive or rewrite U.S. laws that prohibit certain types of aid to countries on the terrorism list and that specifically prohibit aid for North Korea. Some assert that any energy assistance provided should be non-nuclear in nature, arguing that nuclear reactors are ill-suited to meeting North Korea's energy needs because they will take a long time to complete and that the DPRK's electrical grid is not capable of absorbing the added power. Pyongyang periodically has asked the United States and South Korea for electrical power and for help modernizing its grid. Seoul has been receptive to the idea, and has begun providing electricity for the North-South industrial park in Kaesong, North Korea.

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<sup>89</sup> Marcus Noland and Stephan Haggard, Statement Submitted to House International Relations Subcommittees on Asia and the Pacific and on Africa, Global Human Rights, and International Operations hearing, April 28, 2005.



In June 2004, during the third round of six-party talks the United States gave its blessing to a proposal by Japan and South Korea under which those countries would provide the North with heavy oil in return for a freeze of North Korea's nuclear weapons program, followed by a series of measures to ensure complete dismantlement and, eventually, a permanent security guarantee, negotiations to resolve North Korea's energy problems, and discussions on normalizing U.S.-North Korean relations that would include lifting the remaining U.S. sanctions and removing North Korea from the list of terrorist-supporting countries. North Korea rejected the proposal as a "sham."

- **Provide agricultural support assistance.** This could help reduce North Korea's chronic dependence on outside aid by boosting its domestic agricultural output.<sup>90</sup> Many European NGOs, and some U.S. groups, have moved from providing relief to rehabilitating the country's agricultural system. According to one study, the prospects for success of these efforts are not likely to make substantial progress unless the North Korean government allows development workers greater access to the North Korean population and abandons its priority of attaining self-sufficiency in food.<sup>91</sup> Some observers counter that focusing on self-sufficiency distracts from what they argue is the most efficient solution to the food security problem: importing more food from abroad.<sup>92</sup>
- **Provide other types of humanitarian assistance.** North Korea's health care system has been devastated by the collapse of the country's economy. At the same time, a decade of food shortages has led to the prevalence of opportunistic diseases, including tuberculosis, which was believed to have been eradicated from the DPRK in the 1970s. Some relief NGOs have had more success in obtaining North Korean cooperation in the areas of health care and disease prevention than they have in providing food.
- **Expand academic exchanges and training programs** in financial and economic skills for North Koreans. Some have called for capitalizing on the growth of North Korea's private sector by building a "vanguard for change" among the North Korean bureaucracy and academia that could become advocates for

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<sup>90</sup> See the GAO's report, *U.S. Bilateral Food Assistance to North Korea Had Mixed Results*, for a discussion of a U.S. government-supported private project to increase North Korean production in 1999 and 2000.

<sup>91</sup> Michael Schloms, "The European NGO Experience in North Korea," in Scott Snyder, et. al., *Paved with Good Intentions: The NGO Experience in North Korea*, (Praeger Publishers: Westport, CT, Forthcoming 2003), especially p. 64-66.

<sup>92</sup> May 2005 e-mail correspondence with Marcus Noland, Senior Fellow, Institute for International Economics.

additional reforms. Many such exchanges and programs exist including some in the United States. Proponents for expanding these activities contend that they represent ways to build North Korea's institutional capacity for change without channeling resources to the current Kim Jong-il regime.<sup>93</sup>

**The Timing of a U.S. Offer of Development Assistance.** Thus far, the Administration has indicated that it would insist that the North first begin verifiably dismantling its nuclear program before the United States would begin providing any large-scale aid.

**A Multilateral Development Assistance Program.** There is considerable scope for putting together a prospective multilateral assistance program to North Korea. Key U.S. concerns in assembling such a program are likely to revolve around fungibility, diversion, and transparency. Providing a future large-scale aid package is a major component of former the "sunshine policy" of engagement initiated by former South Korean President Kim Dae Jung. Kim's successor, Roh Moo-hyun, has expanded the policy, though South Korea appears to be linking larger-scale assistance to progress on the nuclear issue.

In bilateral normalization talks, Japan has offered to give North Korea a large-scale economic aid package to compensate the DPRK for Japan's colonization of the Korean Peninsula from 1910 to 1945. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion. Large-scale aid from Tokyo, however, is contingent on North Korea cooperating on other issues, especially the matter of Japanese citizens kidnapped by North Korean agents in the 1970s and 1980s. Disagreements over this issue, combined with developments in the DPRK's nuclear weapons program, have brought Japan-North Korea normalization talks to a halt since the fall of 2002.<sup>94</sup>

Russia, which in recent years has expanded its economic ties to North Korea, may also be interested in participating in a multilateral aid program. Moscow appears particularly keen to link the Trans-Siberian Railway to South Korea via the DPRK. Russian railway authorities completed a joint on-site survey of the 920 km trans-Korean railway in 2002, and have discussed plans to begin rebuilding North Korea's dilapidated rail system.

Additionally, funding could be sought from international financial institutions such as the World Bank, Asian Development Bank, and the International Monetary Fund. The United States and Japan currently oppose North Korea's membership in these organizations.

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<sup>93</sup> See, for instance, International Crisis Group Report No.96, *North Korea: Can the Iron Fist Accept the Invisible Hand?* April 25, 2005.

<sup>94</sup> For more on DPRK-Japan relations, see CRS Report RL32161, *Japan-North Korea Relations: Selected Issues*, by Mark E. Manyin.

## **Additional CRS Products on North Korea**

CRS Report RS21834, *U.S. Assistance to North Korea: Fact Sheet.*

CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations — Issues for Congress.*

CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program.*

CRS Report RL32743, *North Korea: A Chronology of Events, October 2002-December 2004.*

CRS Report RL31696, *North Korea: Economic Sanctions.*

CRS Report RL32493, *The North Korean Economy: Background and Policy Analysis.*

CRS Report RL30613, *North Korea: Terrorism List Removal?*

CRS Report RL32167, *Drug Trafficking and North Korea: Issues for U.S. Policy.*

CRS Report RS21391, *North Korea's Nuclear Weapons: How Soon an Arsenal?*

CRS Report RS21473, *North Korean Ballistic Missile Threat to the United States.*

CRS Report RS21582, *North Korean Crisis: Possible Military Options.*

CRS Report RL32428, *Japanese Prime Minister Koizumi's May 2004 Trip to North Korea: Implications for U.S. Objectives.*

CRS Report RL32161, *Japan-North Korea Relations: Selected Issues.*

## Appendix A: South Korean Expenditures on Engaging North Korea

**Table 6. South Korean Governmental Expenditures on Engaging North Korea, 1995-2004**

Year	Total Value	KEDO (a)	Food Aid (b)		Fertilizer (b)		Road & Rail Links (c)	Payment to DPRK for 2000 Summit (d)	Mt. Kumgang Tours (c)	Aid to ROK Business	Kaesung Industrial Complex (c)	Family Reunions	Other (e)	Exch. Rate
	(\$ mil)	(\$ mil.)	Value (\$ mil.)	Metric Tons	Value (\$ mil.)	Metric Tons	(\$ mil)	(\$ mil)	(\$ mil)	(\$ mil)	(\$ mil)	(\$ mil)	(\$ mil.)	(won/\$)
1995	\$241.8	\$1.8	\$240.0	150,000	—	—	—	—	—	—	—	—	—	771
1996	\$11.9	\$8.9	\$2.9	3,612	—	—	—	—	—	—	—	—	\$0.0	805
1997	\$31.4	\$3.0	\$23.1	69,322	—	—	—	—	—	—	—	—	\$5.3	954
1998	\$21.1	\$6.5	\$11.0	40,000	—	—	—	—	—	—	—	\$0.0	\$3.6	1,395
1999	\$35.3	\$6.4	—	—	\$28.5	150,000	—	—	—	—	—	\$0.4	\$0.0	1,189
2000	\$706.5	\$308.9	\$93.4	500,000	\$83.4	300,000	\$12.9	\$200.0	—	\$0.4	—	\$2.4	\$5.0	1,131
2001	\$453.2	\$271.1	\$17.3	100,000	\$49.5	200,000	\$69.6	—	\$34.8	\$0.8	—	\$1.0	\$9.1	1,291
2002	\$584.9	\$288.7	\$120.4	500,000	\$66.6	300,000	\$53.5	—	\$43.9	\$2.2	—	\$1.6	\$7.9	1,251
2003	\$650.4	\$333.0	\$122.2	500,000	\$70.1	300,000	\$94.1	—	\$5.1	\$10.7	—	\$2.5	\$12.8	1,192
2004	\$543.3	\$137.1	\$164.6	500,000	\$89.8	300,000	\$92.6	—	\$6.8	\$11.9	\$21.8	\$2.8	\$15.9	1,145
<b>Total</b>	<b>\$3,279.7</b>	<b>\$1,365.2</b>	<b>\$794.9</b>	<b>2,362,934</b>	<b>\$387.9</b>	<b>1,550,000</b>	<b>\$322.7</b>	<b>\$200.0</b>	<b>\$90.6</b>	<b>\$26.1</b>	<b>\$21.8</b>	<b>\$10.7</b>	<b>\$59.8</b>	

**Notes:** Exchange Rates from Bank of Korea Economic Statistics System (Longer Frequency, Avg Closing Rate).

Dollar values calculated as current year dollar conversions from Korean won. The exceptions are KEDO and the payment for the 2000 inter-Korean summit.

a. Figures from KEDO Annual Reports

b. ROK Ministry of Unification. Tonnage figures are pledges, not necessarily deliveries.

c. ROK Export-Import Bank's "DPRK Support Fund"

d. South Korea Independent Counsel. In discussions held in March and April 2000 to arrange the first-ever North-South Korean summit, North and South Korean government officials agreed that the Hyundai Group would pay North Korea \$350 million in cash and that the South Korean government would pay \$100 million in cash. The South Korean government then arranged for the state-run Korean Development Bank to loan a Hyundai affiliate \$200 million, which days before the summit was transferred to North Korean bank accounts in Macao.

e. Includes Cultural Exchanges and Aid to NGOs.